FINANCIAL TIMES

INDONESIA
Environmentalists score paper success
Page 16

No.31,012 © FINANCIAL TIMES 1989 | Thursday November 30 1989 | D 8523A

World News

Rajiv Gandhi resignation paves way for Singh

Rajiv Gandhi resigned as Prime Minister of India paving the way for the opposition National Front, led by V. P. Singh, a former Cabinet colleague of Mr Gandhi, to form the next Government.

EC pollution fund
The European Commission agreed to spend Ecu500m ($565m) over the next three years to help clean up polluted coastal areas of the Community, notably those in the Mediterranean region. Page 16

Beirut arms build-up
An extensive Syrian military build-up, involving 15,000 troops, around East Beirut continued despite diplomatic efforts by the French Government and Catholic church to defuse the crisis. Page 16

Rebels cut highway
Left-wing FMLN guerrillas in El Salvador again closed the western highway out of the capital, San Salvador, and occupied parts of upper-class suburbs - shooting has been reported around the British Embassy. Page 6

Soviet ethnic deaths
At least two people were killed in violence that erupted following a Soviet parliamentary decision to change the status of the disputed region of Nagorno-Karabakh in Azerbaijan.

Eritrean talks set
The Ethiopian Government and Eritrean rebels agreed to hold formal peace talks next year, but an acrimonious press conference which ended preliminary discussions highlighted the wide gap between the two sides. Page 4

Athens cuts pledge
The new Greek PM, Mr Xenophon Zolotas, pledged that his all-party government would cut the country's public sector borrowing requirement by between 2.5 and 3 percentage points of gross domestic product next year.

Taiwan averts crisis
Taiwan's ruling Kuomintang Party successfully defused a potential stock market crisis three days before the country's general election when it announced a new share transaction tax well below 1.5 per cent. Page 4

Thatcher challenged
Sir Anthony Meyer MP was formally nominated as a candidate for the UK Tory Party leadership challenging Prime Minister Margaret Thatcher in a parliamentary ballot.

Comaneci defects
Romanian gymnast Nadia Comaneci, gold medal winner at the 1976 Olympic Games in Montreal, has fled across the border to Hungary, according to a government spokesman.

Cocaine dealer held
Bolivian anti-drug officials captured one of the country's top five cocaine traffickers during a massive police sweep in the south-eastern town of Santa Cruz.

Trade links sought
British businessmen would like to return to the days before the Falkland Islands war when the UK was Argentina's number one trade partner, a senior British banker said in Buenos Aires. Page 6

Walters' new post
Prof Alan Walters, whose controversial role as economic adviser to Margaret Thatcher, the UK Prime Minister, led to the resignation of Nigel Lawson as Chancellor of the Exchequer, is to offer advice to the new Polish Government.

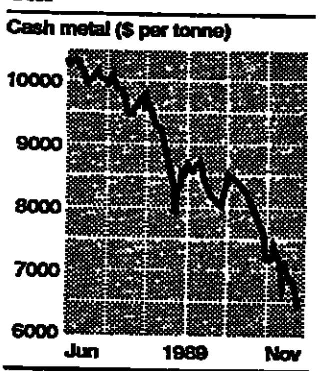
Business Summary

ABB buys UK-based Global Engineering

ASEA Brown Boveri, European engineering group, purchased Global Engineering, UK-based engineering consultancy specialising in oil and gas extraction, signalling ABB's intention to become a large technical partner to world's oil companies. Page 17

TIN: On the LME tin prices continued downwards, cash tin closing at $6,440 a tonne - a new contract low. Trading remained thin as the three-month price approached $6,500

Tin
Cash metal ($ per tonne)



a tonne, which some analysts felt might be a support level after a decline of more than $300 this week and some $1,100 compared with a month ago. Commodities, Page 28

CITY OF LONDON: The committee preparing the blueprint for the London stock market's paperless clearing and settlement system plans extensive changes to the original scheme. Page 7

US EXPORTS: Private sector advisers to US Bush Administration urged the Government to streamline the CoCom list of multilaterally controlled technologies and review export controls. Page 6

SHEARSON Lehman Hutton, US securities house 61 per cent-owned by American Express, detailed a management shake-up designed to focus efforts on internal consolidation and selective expansion. Page 18

JAPANESE institutional investors are likely to buy all the UK water company shares they can get in the latest stage of the British Government privatisation programme. Page 22

HANSON, UK conglomerate, announced full-year profits before tax topping the £1bn-mark ($1.56bn) for the first time. Page 17

US TREASURY bonds continued to drift, showing little reaction to a modest upward revision in third quarter US GNP amid confusion about monetary policy. Page 23

SHIPPING: Norwegian shipowners with Panamanian registered ships are preparing to seek new registries to avert a boycott being considered by the US of such ships calling at its ports. Page 6

BOMBARDIER, Canadian aircraft and transport equipment company, is continuing its European expansion with plans to buy ANF Industrie, France's second largest producer of railway rolling stock. Page 18

S.G. WARBURG Soditic, Geneva-based finance company, bought 49 per cent of a Hungarian offshore finance company in a joint venture with Girozentrale und Bank der Oesterreichischen Sparkassen, Vienna. Page 19

NISSAN Motor, Japanese car maker, is to set up two centres in the UK for the design and development of cars and light commercial vehicles. Page 18

BOND Media, part of the debt-laden Bond Corporation group, is considering issuing new capital to help meet its A$200m ($157.2m) debt to Australian billionaire Mr Kerry Packer. Page 21.

Moscow calls on Bonn to renounce pre-war frontiers

By Quentin Peel in Rome and David Goodhart in Bonn

THE SOVIET UNION yesterday attacked West Germany's plans for reunification with East Germany and expressed deep concern over what it sees as the danger of a revival of German nationalism.

Moscow also called on Bonn to renounce the claim that Germany's pre-war borders are still legally valid.

The issues were raised as a substantial problem between the two European politicals blocs on the first day of the state visit to Rome by Soviet President Mikhail Gorbachev.

Moscow's statements came on the day after Mr Helmut Kohl, the West German Chancellor, presented a 10-point plan for German reunification within a united Europe.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, went out of his way to raise the issue at his talks with his Italian counterpart, Mr Gianni de Michelis, underlining the depth of Soviet concern at a time of extraordinary upheaval in Eastern Europe.

Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, said in Rome that three basic facts had to be accepted in Europe:

● The existence of two military blocs, Nato and the Warsaw Pact;

● Borders ratified under the 1975 Helsinki Agreement had to be respected;

● There are two Germanys.

Mr Gerasimov said Mr Kohl's plan for reunification could only be discussed if an 11th point were included: "That the (West German) Government does not agree on the ruling of the Supreme Court that the right borders of Germany are still its 1938 borders."

He added: "There is not one country in Europe today which would endorse reunification because of the consequences for stability in Europe. The question is not on the agenda today." Earlier he said that Mr Shevardnadze had raised the problem of "a possible revival of German revanchism."

The stern warning by Moscow coincides with the launching of a diplomatic initiative by West Germany to win international support for its unity plan. The warning comes only a few days before a Soviet-US summit in Malta in which the German question will be high on the agenda.

Although Moscow has so far raised no objections to the process of reform in Eastern Europe, it has, however, always supported its East German allies in opposing unity with West Germany in the foreseeable future.

Mr Hans-Dietrich Genscher, the West German Foreign Minister, is due to meet Mr Gorbachev immediately after the Malta summit.

Mr Genscher's ministry claims to have conducted successful secret talks with Soviet officials, leading to the evacuation of asylum-seekers from Bonn's embassy in Prague, at the very time in early autumn when he and Mr Shevardnadze had their last public dispute over German nationalism.

The collapse of the old orth-
Continued on Page 16

ON OTHER PAGES

US wants action on weapons shipments

By Peter Riddell
In Washington

THE US is seeking to elevate the importance of regional conflicts such as Central America and Afghanistan in this weekend's talks off Malta between President George Bush and President Mikhail Gorbachev.

In a briefing yesterday at the White House, Mr James Baker, the Secretary of State, contrasted the change in Moscow's acceptance of reform in Eastern Europe and what he described as the "Cold War relic" of Soviet relations with "its Brezhnevite clients in Central America, Afghanistan, Cambodia and Ethiopia."

Mr Baker highlighted the continuing pattern of Soviet arms shipments to these countries, notably in Central America, which were "the biggest obstacle to an improvement in US/Soviet relations."

He said that, in spite of repeated and specific assurances from Moscow of a cutoff, arms were still flowing from Cuba and Nicaragua to the FMLN rebels in El Salvador.

"Either the Nicaraguans are lying to the Soviet Union or the Soviet Union is lying to us. We prefer to think it's the former," he argued.

Mr Baker's emphasis on these issues reflects a US desire to press Moscow for concessions at the Malta meeting at the same time as offering reassurance that it will not take unilateral advantage of the changes in Eastern Europe.

He indicated that the two leaders would cover a wide-ranging agenda including Eastern Europe, the progress of reform inside the Soviet Union, regional issues and arms control.

On German reunification, Mr Baker said that it should occur in the context of Germany's continued alignment with Nato and an increasingly integrated EC.

"There should be no trade of neutralism for unity and there should be no dilution of the Federal Republic of Germany's liberal democratic character," he said.

On the issue of borders, he said the US reiterated its support for the principles of the Helsinki Final Act, "recognising the inviolability of frontiers in Europe and allowing for the possibility of change in those borders only through peaceful means."

Backlash in San Salvador, Page 6

Doubts increase over UK stance on interest rates

By Patrick Harverson, Economics Staff, in London

THE POUND suffered another nervous day on the foreign exchanges yesterday amid growing uncertainty in financial markets over the British Government's willingness to raise bank base rates further to support sterling.

The pound has lost more than 8 per cent of its value against the D-Mark since base rates were raised to 15 per cent in early October.

The strength of the D-Mark, which has exacerbated sterling's recent poor performance, continues to place strains on the exchange rate mechanism of the European Monetary System. The D-Mark's buoyancy has pushed other currencies, in particular the French franc, to near the margins allowed within the system, and has led to speculation that a realignment of the ERM may be immineint.

The Bundesbank would certainly favour realignment. In its most recent monthly bulletin the Bundesbank repeated its call for a revaluation of the D-Mark to restore some stability to a system under heavy strain from the West Germany currency's steady climb.

The failure of the Thatcher Government to put up rates since early October is now regarded by the currency markets as an indication that the British authorities are no longer prepared to support sterling with another interest rate rise.

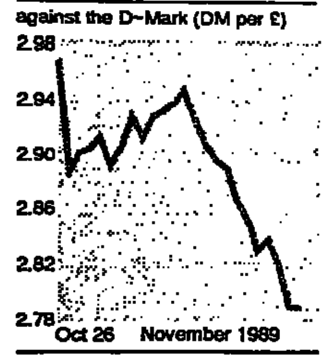
Mr John Shepperd, economist with Warburg Securities, said yesterday: "There is a profound uncertainty in the markets about what the Government is prepared to tolerate."

The Treasury quickly denied that there had been any change in policy and confirmed that the Government would put up interest rates if it was required to bring inflation down. Officials described the fall in sterling as "unwelcome", and said that Mr John Major, the Chancellor of the Exchequer, remained committed to a firm exchange rate.

The Treasury's comments helped the pound recover from an early 2 pfennig fall against the D-Mark. Once again the Bank of England interevened in the currency markets, buying pounds for dollars.

Sterling eventually closed unchanged at DM2.7925, and nearly ¼ a cent higher against the dollar at $1.5670. On the Bank of England's trade-weighted index (1985=100) the pound ended down 0.3 at 86.0.

Sterling
against the D-Mark (DM per £)



The early fall in the pound yesterday stemmed from the Chancellor's refusal in the Commons on Tuesday to repeat that he favoured a firm exchange rate. His failure to detail his attitude to the currency's recent slide was interpreted by financial markets yesterday as a tacit acceptance of the recent devaluation of the pound against the D-Mark.

Some City of London analysts regard recent events as proof that the Chancellor has adopted a more flexible approach to the pound. They believe that Mr Major has abandoned the policy of his predecessor, Mr Nigel Lawson, of setting a specific target for the pound. Mr Lawson was widely criticised during the latter part of his tenure for attempting to peg sterling to the D-Mark.

The Government believes that the current decline in the pound is only a temporary, if troubling, phenomenon. One official said that sterling had been falling because of "frothy political factors." He said that the challenge to Mrs Thatcher's leadership of the Conservative party, the poor showing of the Government in the opinion polls and the exceptional strength of a D-Mark buoyed by political developments in East Germany, were short-term factors that had overstated the pound's weakness.

The Treasury believes interest rates have already done most of the work of cooling down the over-heated economy, and that is policy is working. Domestic demand has slowed sharply, the trade deficit appears to have turned the corner, and the Government remains confident that inflation will be brought down from a peak of nearly 8 per cent in the second half of next year.

National Institute report, Page 9; Currencies, Page 36

Czech opposition expects free elections next June

By John Lloyd and Judy Dempsey in Prague

Politburo member Vasil Mohorita: free and democratic elections will be held

CZECHOSLOVAKIA'S Civic Forum opposition group, now firmly in command of the pace of political change, expects free elections in May or June next year.

Mr Vacil Mohorita, chairman of the Communist Youth Movement and a recent addition to the Party Praesidium, told a press conference yesterday that "free and democratic elections would be held at a date to be decided by the federal assembly." The Government, he said, would prepare changes in the election law which would "reflect the will of the people."

He did not directly confirm that the ruling Communist Party was prepared to go into opposition after 41 years of power, but implied it when he said: "As the Communist Party we will compete for as many seats as possible, but I can hardly tell you now whether we will be a majority or a minority."

In a further indication of the pace of change sweeping the country, the Czechoslovak Parliament yesterday voted unanimously to strip the Communist Party of its guaranteed monopoly on political power. As expected, the 350-member Federal Assembly approved abolition of Article Four of the constitution which states that the Party shall have a "leading role."

Forum activists are also certain that Mr Gustav Husak, the
Continued on Page 16

THF and Savoy call a truce in eight year battle for control

By Nikki Tait in London

A TRUCE was called yesterday in eight-year battle between Trusthouse Forte, the hotel and catering group, and the Savoy Hotel company.

The agreement ends one of the City of London's most colourful and longest-running battles - which erupted from a hostile THF bid for the Savoy. It also resulted in some vitriolic exchanges between Sir Hugh Wontner, the Savoy's former chairman and Lord Forte, chairman of THF.

The two said they had agreed that THF would not acquire any further shares in Savoy for at least five years, except in very limited circumstances. Savoy said it would not issue any new shares without THF's permission for a similar period.

THF would be given two seats on the Savoy board, to be filled by Mr Rocco Forte, THF's chief executive and Mr Donald Main, another THF director.

A new "strategic planning committee" would also be established for the Savoy. This would comprise two executive and two non-executive representatives from the Savoy and two THF nominees. Litigation between the two would cease, and day-to-day management of the Savoy would continue as at present.

The saga began in 1981 when THF acquired 69 per cent of Savoy's equity in response to its hostile bid for the group.

However, because of a two-tier voting structure introduced in the 1950s THF had control of only 42.5 per cent of the votes. The Savoy board spoke for a sufficient number of the weightier "B" shares, to control more than 50 per cent of the votes.

More recently, the battle came to centre on legal attempts by THF to have a critical 5.77 per cent voting stake disenfranchised - which would have bolstered its own position at the expense of that of the Savoy board. The impending court case, suggested Mr Giles Shepard, Savoy's managing director, could have taken five years. He added that the company had already spent around £1.5m ($2.3m) on legal fees.

Mr Rocco Forte, THF chief executive, said his company's lawyers' cost had been lower.

Neither Mr Forte nor Mr Shepard would say who had taken the initiative in seeking the peace agreement. However, both stressed that the accord would avoid a lengthy and costly legal battle.

Asked whether this could herald a full merger at some stage in the future, Mr Shepard said he doubted this - noting that the relative sizes of the two groups would make this, in effect, a takeover by THF.

Lex, Page 16; Background, Page 17; London Stock Market, Page 29

MARKETS

STERLING
New York lunchtime:
$1.5655
London:
$1.567 (1.5625)
DM2.7925 (same)
FFr9.53 (9.535)
SFr2.4875 (2.4925)
Y223.25 (224.50)
£ index 86.0 (86.3)

GOLD
New York: Comex Feb
$415.5
London:
$412.25 (410.75)

N SEA OIL (Argus)
Brent 15-day Jan
$18.05

Chief price changes yesterday: Page 40

DOLLAR
New York lunchtime:
DM1.788
FFr6.0985
SFr1.5915
Y142.93
London:
DM1.7825 (1.787)
FFr6.081 (6.1025)
SFr1.588 (1.5955)
Y142.50 (143.70)
$ index 68.9 (69.2)
Tokyo close: Y143.53

US LUNCHTIME RATES
Fed Funds 8⅝%
3-mo Treasury Bills: yield: 7.90%
Long Bond: 102⅜
yield: 7.91%

STOCK INDICES
FT-SE 100:
2,255.6 (+13.6)
FT Ordinary:
1,781.7 (+13.4)
FT-A All-Share:
1,129.22 (+0.5%)
New York lunchtime:
DJ Ind. Av.
2,704.14 (+2.13)
S&P Comp
344.75 (−1.02)
Tokyo: Nikkei
37,021.46 (+36.16)

LONDON MONEY
3-month interbank:
closing 15 7/32% (15 3/16)
Liffe long gilt future:
Dec 90 1/32 (90 5/16)

MARKET REPORTS: CURRENCIES, Page 36; BONDS, Page 22-23; COMMODITIES, Page 28; EQUITIES, Pages 29 (London), 37 (World)

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EUROPEAN NEWS

US aims for Soviet military withdrawal from Eastern Europe

MR DICK CHENEY, the US Defence Secretary, yesterday set his sights on ending the *Soviet military presence in* East Germany, Czechoslovakia, Hungary and Poland, writes David White, Defence Correspondent, in Brussels. After two days of talks with Nato allies here, he expressed the hope "that we will be able to persuade the Soviets ultimately to withdraw all their forces from Eastern Europe."

However, he said there was no agreement yet in Nato on steps to expand the Conventional Forces in Europe (CFE) agreement which Nato hopes to conclude with Warsaw Pact countries next year. Along with cuts in major equipment to balanced levels, Nato proposals for CFE already include halving the number of Soviet foreign-stationed troops in Europe to 275,000.

Mr Cheney tried at the same time to quell the anxiety of European allies about looming cuts in US defence commitments, following reports in Washington of draft armed service plans involving possible manpower reductions of 250,000.

He said there was no "hidden agenda" and that this weekend's Malta summit between Presidents Bush and Gorbachev was not aimed at negotiating any arms control deal. It was "conceivable" that the US would want to consider extra cuts in its deployments beyond the reduction of 30,000 in Europe already proposed. But he emphasised: "We will not act unilaterally."

He assured allies there would be "no slackening in the US commitment to Nato."

The emphasis now was on completing the current Vienna negotiations "as soon as possible." He hoped Mr Gorbachev might become more interested in quick implementation of an agreement in the light of Soviet economic difficulties.

Nato is to reinforce the High Level Task Force which has been responsible for drawing up negotiating positions in Vienna, in order to tackle the highly complex task of allocating reductions between Nato allies. These plans would involve the transfer of some equipment from one ally to another in an effort to preserve the more modern items in the alliance's armoury and apply the cuts to older weapons.

In a communique issued after the Defence Planning Committee meeting, ministers underlined their determination to avoid unilateral cuts and said improvements were still needed in many areas of conventional arms capabilities.

More of a side-show than a superpower summit

IF THIS ain't love, it'll have to do . . .

This weekend, the presidents of the two nuclear superpowers are meeting aboard their respective warships in the Mediterranean. Naturally, the two have the good wishes of the civilised world. The trouble is that the event is by now so anachronistic as to be almost surreal.

They must talk about nuclear arms control, and particularly about their bilateral negotiations to make deep cuts in strategic long-range nuclear weapons. A healthy nudge forward here would be useful confirmation of a more co-operative relationship. But no-one believes that even a 50 per cent cut in long-range weapons would in itself change the fundamental terms of nuclear deterrence. And since the improvement in superpower relations is now a multi-dimensional affair, nuclear disarmament is no longer the sole, nor even the central, issue in East-West relations.

The central issue is that, under the pressure of a human tide of protest and liberation, the political map of Europe is being re-drawn for the first time for 45 years. But this is an issue where the role of the superpowers is already small and diminishing.

Mr Mikhail Gorbachev urged the process of perestroika on Eastern Europe; he could not have dreamed that the river of change would rush ahead so far out of control. Mr George Bush has finally made up his mind that he should support the Gorbachev reforms; but his influence on events in Europe or the Soviet Union is close to, if not actually, zero.

The anachronism of the event will become more marked on Monday, when Mr Bush goes on to pass the word to Nato in Brussels. Naturally, the US should always inform the allies about its dealings with the Soviet Union; at a time of vertiginous change and uncertainty, it is a sound insurance. Nevertheless, it seems slightly incongruous to hold these consultations at the headquarters of a military alliance, just when peace seems to have become the only dish on the menu.

The Malta meeting is only likely to be significant if the two presidents attempt to elbow their way on to centre stage again. Speculative reports have suggested that they could be poised for a gratuitous arms control contest, in which each tries to outbid the other, with competitive proposals for unilateral troop cuts in Europe.

The urge would be all too human. Superpowers prefer the sensation of being in charge of events, and if arms cuts are in fashion, why not raise the stakes? Yet down that road lies the risk of serious instability, and possibly real insecurity for Western Europe.

This is the central problem facing Europe today. Everybody in the West welcomes the liberation of the East; the difficulty is to manage that liberation in terms that will enable Europe to make a safe transition from the stability which has depended on rigid confrontation, to a new security designed to respect the rights and interests of all.

In principle, the stability of Europe is top priority for just about everybody, from Bush to Gorbachev and from Mitterrand to Mazowiecki. They mostly mean that we should cling on to the framework of the previous security system.

IAN DAVIDSON
ON EUROPE

Whatever their new democratic colours, all East European governments ostensibly agree that nothing should be done to upset the stability of the Warsaw Pact or the existing frontiers of Europe.

Mrs Margaret Thatcher has shown no hesitation in ruling out German re-unification for another 10 or even 20 years; consumed by the conventional wisdom, she has declared that Nato and the Warsaw Pact have "suited us all very well".

But one European leader clearly does not feel bound by this conventional wisdom: Chancellor Helmut Kohl of West Germany. Others may say that the re-unification of the two Germanys is not on the agenda; Mr Kohl evidently does not agree, since he has launched a three-phase plan for bringing it about. And if the Germans put re-unification on the agenda, that is where it is.

In which case, we need to take another hard look at the conventional wisdom; for the Germans are implicitly rejecting the theory of the untouchability of existing frontiers and existing alliances.

The hard fact is that the Warsaw Pact has effectively and irreversibly ceased to exist as a military alliance. It could almost certainly not be mustered for an attack on the West; quite possibly, it could not be mustered for the defence of the Soviet Union either.

Out of deference to Soviet sensibilities, and for the sake of international stability, its members continue to assert loyalty to the alliance. But everyone knows that it is a hollow fiction whose only function is to be believed.

The West German target of re-unification exposes the fiction. Some people pretend that the two states could re-unite while belonging to different alliances, but that is merely to render the fiction ridiculous.

Nor is the West immune to harsh reality. The Soviet Union remains a superpower, and it may threaten Western Europe, now or later. Therefore, Western Europe needs to meet that threat. But if the Vienna negotiations on Conventional Forces in Europe (CFE) were to remove Warsaw Pact superiority in numbers, then Nato would, at the very least, need to rearrange its military strategy. If, in addition, the Warsaw Pact virtually ceases to be a plausible part of the Eastern threat, then Nato's political credibility must be seriously jeopardised.

Nato's jeopardy is not immediately terminal; Nato countries are all democracies, their governments are not about to be swept away in a deluge of popular protest, and for the sake of stability, they will for a while yet hang on to the alliance, warts and all. In the immortal words of Fats Waller: "If this ain't love, it'll have to do, until the real thing comes along".

Fortunately, there is one structure in Europe which is not necessarily threatened by the tide of change in the East; which does not threaten the interests of the Soviet Union; which is potentially strong enough to contain a re-uniting Germany; and that is the European Community.

Whatever the superpower leaders may have to say to each other during their shipboard conversations will be less significant than the European summit in Strasbourg a week later. With any luck, the Twelve will have the wit to ensure that the Community emerges strengthened and better prepared for its new responsibilities.

Berlin's other wall is crumbling, too

By **David Marsh** in Wandlitz

THE GREEN-COATED guards outside the walled settlement of Wandlitz north of Berlin, long-time home of East Germany's party bosses, were firm: "Comrade Honecker is not here. He left this morning. He is not well."

A bunch of 10 red roses I had brought for Mr Erich Honecker, the ailing former party leader who was deposed unceremoniously last month, was left with the gatehouse.

Wandlitz, a collection of two dozen comfortable houses surrounded by more than a mile of high green wall, is embedded in a birch and pine forest 15 miles outside the capital. In the weeks since Mr Honecker's replacement by Mr Egon Krenz the settlement has become a focus of public indignation about privileged lives at the top of the Communist hierarchy.

Press and television have been scrambling to reveal details. Not only Wandlitz, but also the hunting estates of Mr Willi Stoph, the former Prime Minister, and Mr Harry Tisch, the former trade union leader, have come under investigation.

The East German Communist Party built the settlement in 1957 to protect Mr Walter Ulbricht and other top names in the *nomenklatura* from potential attacks in the uncertain years after the 1956 Hungarian uprising.

For three decades, leading Communists have built up a well-heeled existence here, supplied by Western gourmet foods not available in East German shops, well away from the eyes of the people.

Now, all this has changed. The state prosecutor's office said this week it was starting to investigate the disappearance of lorryloads of luxury goods removed from Wandlitz earlier this month.

In another sign that he understands which way the wind is blowing, Mr Krenz was careful to move out of Wandlitz two weeks ago. He was interviewed on East German television in a more modest dwelling in the Berlin suburb of Pankow, declaring he wanted to be closer to Berliners.

Domestic and foreign reporters during the past week have been led round on official tours of the Wandlitz settlement. However, newspapers have alleged that the most delectable items in the special shops had been removed. Among the wares alleged to have been spirited away are said to be video equipment, Dior cosmetics and triple-layer toilet paper.

The village of Wandlitz itself is made up of pretty wooden garden houses and more substantial villa-type dwellings surrounded by mud. Local people say they are indignant about the revelations.

One petrol pump attendant said he had lived in the area for 23 years and found the news about the hierarchy's high life "shocking". A shop assistant in a poorly stocked local retail store said: "It is not as if we have such a bad life. But I did not think the difference [with the party bosses' lives] was so crass. It's such a contradiction."

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Telex 416193) represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.
Financial Times (Scandinavia), Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (01) 13 44 41. Fax (01) 935335.

East Germany's long suppressed meritocracy begins to find its voice

By **David Goodhart** in East Berlin

DR CLEMENS THUERMANN, a 40-year-old East Berlin mathematician, belongs to the class that is poised to inherit political power in East Germany. He is educated, honest and, above all, has never belonged to the Socialist Unity Party (SED).

His refusal to join the party ("I wouldn't have been able to look at myself in the mirror each morning") has blighted his career. Several years ago he became deputy head of a small planning institute and has since had no prospect of further advancement, or the higher salary or right to travel abroad that would bring, because the next rung up was reserved for party academics.

Sitting last week in the small but comfortable house, which he owns, on the outskirts of East Berlin, he voiced the complaints and hopes of the suppressed meritocracy. The complaints were not just directed upwards at his party bosses but also downward at the "average manual worker" who, he says, receives about the same monthly salary as he does: after tax about Marks 1,200 (£430) a month.

That is enough to live on with his wife and seven-year-old son, but not enough to realise old dreams such as visiting Britain and Mexico.

Three weeks Dr Thuermann was a member of no political party and was rather dismissive of the "unrepresentative" intellectuals in the opposition. He has subsequently joined the new Social Democratic Party and wants to play an active part in the elections which he expects in September.

He has no qualms about a re-unified Germany and believes the majority of East Germans, including an increasing number within the official political machinery, see it as a logical consequence of economic support from West Germany. However, he fears that the economic situation could deteriorate sharply in the next few months causing a further loss of the skilled young people needed for economic renewal, and the gradual dominance of the "parallel" West German currency in everyday transactions.

His institute does a lot of statistical work for the Building Ministry so he knows how poor are the country's economic data; he is also well-connected enough to be depressed about the quality of economic advice being given to the new reformist party leaders.

Above all he fears the inertia of the half-working class – "those people who do only a couple of hours work each day but take home the same salary as everyone else" and do not want anything to change.

EUROPEAN NEWS

W Germany counts the heavy cost of unity

By David Goodhart in Bonn and Andrew Fisher in Frankfurt

EVIDENCE mounted yesterday that German unity could have a crippling financial cost for the Federal Republic if it comes too early.

According to Mr Andreas Meusch, an Employment Ministry official, if union came before the East German economy was revived, the costs would be "incalculable".

Some 16m East Germans would qualify for West German pensions, health care, unemployment benefit, student loans and civil service conditions, without being able to contribute more than a fraction of the cost.

The ministry yesterday announced the establishment of a working party to review such problems, which would not exclude examining a two-tier benefit system or a complete overhaul of the existing welfare system.

Mr Theo Waigel, the Finance Minister, said in the Bundestag budget debate that economic co-operation with Eastern Europe and especially East Germany was now at the centre of economic policy.

But he said it was an illusion to start talking about "hundreds of billions" in economic aid and derided the Social Democrats' (SPD) proposal for the Bundesbank to support the East German Mark.

A private paper being considered by SPD leaders suggests the party can regain the initiative by stressing that East Germany must first be made economically viable before it can choose its political future.

Mr Alfred Herrhausen, chief executive of Deutsche Bank, yesterday called reunification inevitable, desirable, and closer than people thought. "When people say this would be unbearable, as Germany would be too strong, I answer that then it would be better to divide Japan immediately."

Ironically, his comments follow a warning from Mr Stefan Heym, East German novelist and dissident, of the threat from a reunited Germany made up of "Messerschmitts, Mercedes and Mr Herrhausen of Deutsche Bank".

Rome finds Gorbachev bearing his burdens lightly

By John Wyles and Quentin Peel in Rome

● Mikhail Gorbachev, flanked by Raisa, waves to crowds at the Coliseum

MR MIKHAIL GORBACHEV gave President Bush something to ponder when, after stepping out of his Ilyushin 62 aircraft at Rome airport yesterday morning, he let slip: "I have arrived in Rome in a good state of mind."

The bulletin was issued to Mr Nikolai Lunkov, the Soviet ambassador, overheard by an agency reporter and faithfully relayed to a world anxious to know how the Soviet leader is bearing up under the strain of domestic turbulence and communist parties toppling to the left and to the right.

Foreign travel, as we all know, broadens the mind and, as visitors have long testified, Italy is more soothing than most foreign parts.

Close observers of Mr Gorbachev have long maintained that his overseas trips are particularly therapeutic, enabling him this week to escape from an onslaught from conservatives in his own party and the threat of a revolt in Armenia over his decision to hand the disputed territory of Nagorno-Karabakh back to the control of Azerbaijan. Nevertheless, a lesser man might have arrived in Rome in a bit of a temper.

Mr Gorbachev had reportedly hoped to go to "Red Bologna," where the communist-dominated coalition that runs the city practises such an enlightened form of the creed that some municipal services are being farmed out to the private sector.

But any student of Italian politics could have told Mr Gorbachev that a government controlled from inside by Mr Giulio Andreotti, the premier, and from the outside by Mr Bettino Craxi, the Socialist leader, would not be about to put a communist-run city in Italy's showcase. So the Soviet leader will have to make do with Christian Democrat Rome and Socialist Milan.

His arrival in the capital was a Roman dream, not because of any feverish desire to turn out in their millions to see the author of perestroika but because his huge motorcade drove through streets entirely free of traffic. In fact the crowds were rather thin, belying a gushing Italian TV commentary about the unprecedented warmth of the welcome.

After a light lunch with President Francesco Cossiga, Mr Andreotti and other luminaries Mr Gorbachev returned to traffic-free streets for a lightening wreath-laying on the tomb of the unknown soldier and the quickest of peeps at the Coliseum, which Mrs Raisa Gorbachev lightly observed was carrying its 1,909 years rather well.

There was no evidence here that a petulant Raisa had tried to damage the Soviet President's good mood. Intelligence sources suggest that the Russians had made advance soundings about a fashion show at one of Italy's leading houses, an event which Moscow's first lady is known to enjoy. But there was no subsequent follow-up, one can assume because of the certainty that the news would play badly back home.

Instead Mrs Gorbachev, who arrived wearing colours almost as dull as her husband's grey trilby, is being packed off today to Messina. To honour Soviet sailors who helped in salvaging the Sicilian citizenry from the 1908 earthquake.

Brussels backing for joint HDTV venture

By Lucy Kellaway in Brussels

A JOINT venture of leading European broadcasters, programme makers and equipment manufacturers is to be set up with the help of the European Commission to compete with the Japanese for the world adoption of a standard for High Definition Television.

Brussels, which has been active in promoting a European HDTV, has switched its emphasis from the technology – which is relatively well developed – to fostering its application. By bringing together more than 30 television and production companies with the manufacturers, Philips of the Netherlands and Thomson of France, the Commission hopes better access to the market will be assured.

The time is running out for the European industry to present a strong alternative to the Japanese rival HDTV system, which is better established. Next year the International Radio Consultative Committee will decide on a common world standard, giving one group access to a world market estimated at Ecu10bn (£7.3bn) by the mid-1990s. The European side has argued that its system is preferable as it is compatible with existing television sets.

The budget for the new company has yet to be set but some Ecu45m has already been spent on promoting the European rival, of which Ecu15m was contributed out of Community funds. Estimates for the total funding of the scheme are about Ecu150m.

The primary task set for the company will be to ensure that a full range of HDTV equipment is available to programme makers and broadcasters, to make sure that it is well maintained and also to organise demonstrations.

The form of the venture is to be a European Economic Interest Grouping, a flexible new form of company, which under recent Community rules can be set up with minimal capital requirements.

● The West German Government has agreed to stop general aid to three regions, writes David Buchan in Brussels.

This follows European Commission complaints that it overstepped an agreement with Brussels aiming at preventing Bonn's largesse from distorting competition with poorer EC states. In a compromise deal, the regions surrounding Fallingbostel in Lower Saxony, Bocholt in North Rhine Westphalia and Regensburg in Bavaria will from January 1 be taken out of the German aid scheme.

But six other areas, whose receipt of federal German aid Brussels had criticised, are to continue to receive assistance until their economic situation improves. Bonn and Brussels have frequently clashed over regional aid.

Slovakian conservatism slows progress of reform

By Leslie Colitt in Bratislava

SLOVAKIA'S bustling capital, Bratislava, is solidly behind the upheaval sweeping Czechoslovakia, but the authorities are still offering formidable resistance in this conservative part of the Czechoslovak federation.

"We hope for victory but our pessimists have never disappointed us," Dr Andrej Reiner, a physician aiding the opposition, notes drily.

Mr Juraj Vaculik, a leading member of the student co-ordinating committee (KOVSS) in Bratislava, says the Communist party and Government are "on the defensive" in the Slovak capital. But student organisers are still prevented by the People's Militia from entering many factories, especially in the cities of Kosice and Presov in eastern Slovakia.

With each day, however, new factories and institutions are joining the reform movement in Slovakia, whose 5m inhabitants are mainly devout Catholics. The 10m population of the Czech lands (Bohemia and Moravia) is nominally Protestant.

"In a week's time it is impossible to destroy Communist institutions built over the past 40 years. But if this trend continues things will be very good in Slovakia a month from now," says Mr Vaculik.

As in Prague, students and theatrical people are the driving force behind the movement for democratic reforms. Their headquarters is the Academy of Music and Theatrical Arts located in an ornate 14th century building which was the first university in Hungary when this city was called Pozsony. The students say they will continue their strike until their demands are fulfilled.

The atmosphere here is far more tense than in Prague as students fear the party may still resort to the army and police.

A video studio is preparing and copying films of the mass demonstrations in Prague and Bratislava which are taken by students to the towns and villages of Slovakia and shown to the population.

Some of the student leaders are the sons and daughters of high Communist functionaries. The father of one is a senior police official. His son apologised for not signing a petition against the authorities for fear of compromising his father.

Mr Martin Simecka, a member of the Public Against Violence, the Slovak counterpart of the opposition Civic Forum in Prague, says PAV's members are atypical for Slovakia in being largely non-Catholic "liberals and humanists." The 20-member leadership also includes four Communists who have just resigned from the party.

Mr Simecka, a writer and stoker – a job frequently held by dissidents in Czechoslovakia – says a yet to be formed Christian Democratic Party is likely to become much stronger in Slovakia than in the Czech lands where social democracy had strong roots.

"The students here are very liberal and are afraid of the conservatism in Slovakia. They have had only 10 days of freedom and they want social justice," he says.

Opposition activists believe the greatest danger is the attempt of Mr Karel Urbanek, the new Communist party leader, to co-opt the opposition's ideas. Slovaks, they maintain, are too conservative and traditional to want great changes.

Civic Forum's dignified revolution presses on

By Judy Dempsey in Prague

THE remarkable success of Czechoslovakia's Civic Forum has emerged from the country's dormant democratic traditions and from the movement's ability to provide quickly a broad umbrella for students, intellectuals, workers and experts.

In the space of just 10 days, the Revolution of the Theatre, so-called because of the spontaneous support given by actors to the students beaten up by police on November 17, transformed itself into a loose but competent team of negotiators, who forced the ruling Communist Party to relinquish its leading role.

But such speed and organisation had not been planned. Rather, it was the immense support from society that accelerated the pace of events.

It started after the students announced strikes after November 17. The actors at the Magic Lantern Theatre in the heart of Prague literally provided its stage for the demonstrators. The theatre itself was soon turned into an information centre, packed with volunteers, who printed leaflets, distributed statements, and told the rest of the country what had been taking place in Prague. It also became the first home of the Civic Forum.

But it was also a movement, which, until last Sunday, was almost entirely dominated by students, by Charter 77, the country's first independent human rights movement, as well as the plethora of unofficial groups which had sprung up over the past year.

But as the children of 1968 controlled the streets, and the intellectuals, particularly Mr Vaclav Havel, the shy and banned playwright, and Mr Vaclav Maly, the boyish priest, who for years had been prevented from preaching in a church, provided a deep sense of spiritual and moral purpose, the movement was in urgent need of experts.

Thanks to the entry of the economists from the Institute of Forecasting, the brain trust of the country's experts, the Civic Forum had under one roof all the components of its civil society.

Such unity precipitated the paralysis of the ruling Communist Party.

The way in which society came out onto the streets, speaks highly of a country which had waited for so long for this week. Its success was achieved without violence and with dignity. On the day after the general strike last Monday, visitors to Prague would not have believed that a Quiet Revolution was in the making.

True, window-shops have been turned into a wall of posters. But some of those posters, put up by the students, asked that the streets be cleaned up after the strike. On Tuesday, not a piece of litter was in sight. Everyone was back at work. The traffic wardens were back on their regular beats. The people had made their point.

OVERSEAS NEWS

Taiwan investors watch as the stock index rises a record 590 points yesterday.

Cut in proposed tax revives Taiwanese stock market

By John Elliott in Taipei

TAIWAN'S ruling Kuomintang Party yesterday defused a potential stock market crisis three days before a general election when it announced that a new share transaction tax would be introduced well below a controversial mooted level of 1.5 per cent.

As a result, shares rebounded yesterday from Tuesday's record 5.7 per cent fall, with their largest ever rise of 6.5 per cent. This might have been greater but for a 7 per cent regulatory ceiling on one day's share movements.

An announcement is expected to be made this morning by the Ministry of Finance that the tax figure will be 0.6 per cent. This is in line with a KMT party leaders' decision, taken at an emergency session on Tuesday night, that it should be below 1 per cent.

This action has prevented a further run on the market and has rescued the government from the risk of serious electoral unpopularity just before Saturday's election. But the government has also lost some credibility because, after weeks of indecision, it has been forced into announcing the figure by a run on the market.

The expected level of 0.6 per cent may also not be high enough to perform the function for which the tax was designed. The government wants it to take a lot of heat out of the turbulent market by making transactions expensive. It hopes this will curb some of the speculative fever that has overtaken the country in the past couple of years, during which time many people have given up jobs in order to play the market.

Yesterday's bull market brought the Taipei weighted index up from 9040.09 to 9630.23.

World stock markets, Page 45

Manila's stability starts to draw investors

Fears of a coup are receding, President Corazon Aquino tells **Greg Hutchinson**

FOREIGN investment in the Philippines is surging because the message has finally got through that the country is politically stable and the daily danger of coup d'états is long past, says President Corazon Aquino.

In a wide-ranging interview with the Financial Times at the Malacanang Palace she admitted that although she came to power in 1986, it has only been in recent months that foreign investors have come to believe what she has known since she survived the last coup attempt more than two years ago: "I am politically secure."

President Aquino was dressed in a yellow suit. Yellow was her rallying colour against the late Ferdinand Marcos, whom she ousted as president in a "people-power" revolt in February 1986.

But the Philippines has since then paid heavily for the perception of instability, particularly in lost investment opportunities in manufacturing and tourism. Thailand, and not the Philippines, looked likely to become the fifth "Little Tiger" or newly industrialised country. "We are slowly getting there, but Thailand had political stability ahead of us. And the Philippines had a very serious coup attempt in August 1987. I know for a fact that quite a number of Taiwanese investors wanted to come here but decided instead to go to Thailand."

Taiwan has now bounced back. It has overtaken the US and Japan to be the Philippines' biggest investor so far this year. "In 1989 we're getting a huge increase in the number of investments. In fact we exceeded the [Department of Trade and Industry] target for 1989 in the first eight months of this year," says Mrs Aquino.

Investment approvals for local and foreign capital were $2.85bn (£1.8bn) for the first nine months, almost three times the $1.02bn recorded in the first three quarters of 1988. However, the Department of Trade figures represent money promised rather than actually spent.

"The big Japanese companies are also now really establishing themselves here. I guess they were watching and waiting to see what was going to happen here before they came out in full force," she said.

She emphasised her desire for closer regional co-operation, defended her hands-off approach to population control, and dismissed suggestions that her political house might still not be in order after renewed threats by the leader of the last coup attempt and a defeat at the polls for political autonomy for a large part of insurgency-racked southern Philippines.

Mrs Aquino predicted a bright future for tourism, with arrivals forecast to exceed 1.2m by the end of 1989. The 1m milestone has just been broken, but pales into insignificance against Thailand's 4m visitors a year. She denied that lawlessness and insurgency were holding back the growth of tourism but said poor infrastructure was a concern.

"The big problem is the lack of hotel rooms. New hotels are going up but it will take time and what we are looking at now is the use of apartment-hotels in order to meet the demand until 1991, when the new hotels will finally be finished."

One of the Philippines' most pressing problems is the rate of increase of the population, with more than half its people under 16. But Mrs Aquino, a devout Roman Catholic, indicated no change in the current health programme of leaving mothers to decide how to plan their families.

"What we are doing is telling them the options available. The people decide for themselves what is best," Mrs Aquino said, although in many of the poorer and less educated communities this means that in fact the local priest decides. Unlike some other Asian countries the Philippines offers no state incentives for parents willing to limit their families.

With a population growth rate estimated officially at 2.6 per cent, but more likely to be around 3 per cent, the government's hands-off approach to family planning is seen by many analysts as potentially negating all the other economic pluses.

However, Mrs Aquino is confident progress will be made. She sees the issue as one of parents "spacing" their children, and of modern economic demands eventually putting a damper on fertility without the need for the state to resort to the carrot or the stick.

On her electoral setback in the troubled southern region of Mindanao, the first since she swept into power, Mrs Aquino blames poverty, and in what is bound to be a controversial move, says she will propose to Congress that free transportation of voters to the polls – originally a Marcos initiative – be reinstituted.

At the time he was accused of influencing the vote through this measure but Mrs Aquino now insists it would be right because "the people can exercise their rights no matter what party they belong to, no matter which candidate they vote for."

Election officials say only four out of 13 southern provinces appear to have voted for the Manila proposals for limited autonomy. Mrs Aquino did not campaign for or against but toured the areas urging a large turn-out.

She was snubbed with a turn-out of less than 50 per cent. In critical Moslem collectives, the percentage was far lower, although the self-rule proposals were ostensibly for them, to ease their sense of alienation from their traditional land and to attack the causes of the Moslem insurgency that has cost 50,000 or more lives since the 1970s.

On regional co-operation, Mrs Aquino saw a strengthened role for the Association of South East Asian Nations (Asean) and said she favoured the phasing out of all intra-regional tariffs as part of the eventual establishment of a full-scale common market within Asean, which groups Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.

Aquino: 'I am politically secure'

Charges against Li 'simplified'

By Michael Marray in Hong Kong

THE Hong Kong authorities have scaled down the number of charges against Mr Ronald Li, the former stock exchange chairman, and other former exchange officials, dropping eight of 16 charges and amending those that remain, in order to simplify the prosecution case and help reduce the length of the proceedings.

Mr Li – who was arrested nearly two years ago – and seven former colleagues stand accused under the colony's Prevention of Bribery ordinance of accepting advantages in the form of preferential share allocations in companies listed on the Hong Kong stock exchange during 1987, at a time when Mr Li was the chairman.

Mr Alfred Li, a solicitor and son of Mr Ronald Li, is also charged with aiding and abetting the other defendants.

At a court hearing yesterday the defendants won an adjournment until January 17, by which time they will decide whether to elect for an uncontested committal.

Mr Michael Kalisher QC, prosecuting counsel, had argued for an adjournment of only one week, but this was opposed by defence counsel who wish to have time to consider the outcome of a separate High Court hearing, beginning on December 11, at which Mr Li will attempt to have quashed additional charges which have already been transferred to the High Court.

These allegations, against Mr Li alone, involve receiving preferential allotments in Cathay Pacific Airways shares in 1986 and Novel Enterprises in 1987.

Mr Kalisher said that the decision to drop some charges, and simplify the others was in both the public interest and that of the defendants, and was in line with the usual practice of keeping indictments as short as possible and not overburdening juries. The Crown would not seek to revive the changes now withdrawn, he added.

Boat people issue unites US and Vietnam

By Robin Pauley, Asia Editor

BRITAIN'S plans to start forcibly repatriating Vietnamese boat people from Hong Kong before Christmas have brought together two of the world's great enemies – the United States and Vietnam. Both strongly opposed forced repatriation.

Vietnamese officials told the Financial Times in Hanoi this week that a confidential agreement had been signed last Wednesday under which Britain would pay the Vietnamese government $620 (£400) for each boat person forcibly repatriated.

But Mr Nguyen Co Thach, Foreign Minister and deputy Prime Minister, has chosen this moment to repeat his government's long-standing opposition to forced repatriation. He said that if the refugees were against repatriation they could not be sent back, and forcing them back or forcing them to stay in Vietnam was against their human rights.

The US is also implacably opposed to the forced repatriation and President George Bush made plain his objections again during his recent meeting with British Prime Minister Margaret Thatcher.

The British, increasingly embarrassed by the rising level of international concern about the plans, are using semantics to side-step the problem. The British Foreign Office is careful to deny that forced repatriation will occur but accepts that the returnees to be returned by "normal repatriation methods" will be non-voluntary.

The Hong Kong government, faced with 57,000 boat people, of whom only a very small proportion are likely to be screened as genuine political refugees, is anxious to start the forced repatriations quickly so that many are back in their villages before the new "sailing season" begins in the spring.

The Hong Kong government has already moved the first group to be forced out to a site away from the main boat people camps, so there will be no alarm when they go. The government is anxious that the first exodus should occur out of the glare of publicity and possibly at night, unlike the first flight of voluntary returnees, which left in a blaze of publicity and was welcomed in Vietnam by an invited group of Hong Kong-based journalists.

Mr Emrys Davies, the British ambassador in Hanoi, has angered the Hong Kong government by confirming what everybody already knew: the first flight of boat people to be forcibly repatriated would leave before Christmas and would contain something over 100 names. The official line, as reiterated by Mr Douglas Hurd, Foreign Secretary, in Parliament yesterday, remains that detailed arrangements have still to be decided.

Vietnamese refugee children at the Sham Shui Po camp in Hong Kong

China may be more flexible on Cambodia

By Robin Pauley, Asia Editor

THE West's policy on Cambodia may have delayed the process of persuading the Chinese leadership to abandon its unqualified support for the Khmer Rouge guerrillas. The Chinese have, however, now indicated to the Thais that they are again prepared to be flexible in the search for a peaceful solution.

Chinese officials have been admitting privately for some time that their support for the Khmer Rouge – which is really an expression of the same sort of extreme distrust which causes the US to continue its support for the Khmer Rouge – is harmful to China's image abroad.

China's public position became more isolationist and less concerned with foreign opinion after the international outcry following the massacre of students in Tiananmen Square in June. Privately the Chinese were looking for a way to switch from the Khmer Rouge without losing face.

However, since the summer the West's position has encouraged the Chinese to stick with the Khmer Rouge. The US, followed by Europe, has said a solution in Cambodia requires an interim administration involving all parties, including the tri-partite resistance coalition under Prince Norodom Sihanouk, the main group in which is the Khmer Rouge.

The West maintained that position at the Paris conference on Cambodia in August, apportioning most blame for its breakdown to the insistence of Mr Hun Sen, Prime Minister of the present Phnom Penh government, that the Khmer Rouge must be excluded from any new arrangements.

In October the West again supported the retention of Cambodia's UN seat by the faction headed by the Khmer Rouge and this month the General Assembly adopted a resolution drafted by Singapore which doubted that the Vietnamese army had withdrawn from Cambodia and which, in effect, continued to demand a place for the Khmer Rouge in an interim government before elections.

The US and Europe have argued that the UN resolution was an Asean initiative but in fact the most important Asean country in the Cambodia dispute is Thailand, where the Khmer Rouge operate from a string of camps along the border with Cambodia.

Thailand is moving from the Khmer Rouge and is proposing a step-by-step resolution to the conflict rather than a comprehensive settlement. Thailand has always had to keep a wary eye on its relations with China but in an interview with Mr John Pedler, a former British diplomat in Cambodia, Gen Chatichai Choonhavan, Thailand's Prime Minister, has disclosed that in recent discussions with the Chinese they supported his line.

"They have reconfirmed their continued support for the security of Thailand and.. for our initiative for peace in the region. The Chinese leaders know very well that whatever happens in Cambodia affects us most because of our proximity. They have clearly stated their support to Thailand's step-by-step approach."

Iran criticises UN over implementing resolution

IRAN, saying delays in peace talks with Iraq could threaten security in the region, criticised the United Nations yesterday for failing to press Baghdad for a settlement, Reuter reports from Nicosia.

Reiterating Iran's demand for Iraqi troops to leave its border areas, the official IRNA news agency said delays in implementing Security Council Resolution 598 on Gulf peace only encouraged Iraq to hold out for territorial concessions.

"On the basis of past experience, Iran has now come to the conclusion that strategies of the United Nations and its Secretary General on Iraq-Iran peace talks are deviating from their main course," it said in a commentary received in Nicosia.

Mr Javier Perez de Cuellar, the UN Secretary General, said earlier this week that Iranian Foreign Minister Ali Akbar Velayati had accepted an invitation to peace talks in New York in mid-December, but that the Iraqi Foreign Minister Tareq Aziz had not replied yet.

Mr Perez de Cuellar was speaking to reporters after a Security Council meeting at which his envoy, Mr Jan Eliasson reported on his mission to Tehran and Baghdad earlier this month.

IRNA said the Council had turned into a mere talking shop and never acted to force Iraq to move towards a settlement. It said lack of progress in peace talks which began after the August 1988 ceasefire had "further emboldened Baghdad rulers to persist in their irrational demands."

"Any further delay in resumption of the talks is not a wise move because to tolerate further Iraqi stubbornness and obstructionism will endanger peace and security in the Persian Gulf region," IRNA said.

"Further delays in the withdrawal will only help cement Iran's firm determination to expel the aggressor," IRNA said.

Velayati, who last met Aziz in UN-mediated talks in April, said at the end of Mr Eliasson's mission that Iran had agreed to exchange war prisoners simultaneously with an Iraqi pullout. Baghdad, which demands a new treaty to replace a 1975 accord giving Iran sovereignty over half the Shatt al-Arab border river, its main outlet to the Gulf, dismissed Mr Velayati's proposal as blackmail.

Malawi's debt to US cancelled

By Mike Hall in Blantyre

THE US has cancelled its share of Malawi's official debt worth kwacha 110m ($40m), US officials have said. The amount is equivalent to 3.4 per cent of Malawi's total foreign debt of some $1.2bn. Malawi is the second Sub-Saharan African country after Mali to have its debt to the US cancelled.

Earlier this year the US congress decided that 11 countries in Sub-Saharan Africa which had adopted IMF and World Bank sponsored structural adjustment programmes merited debt relief during the 1990 fiscal year amounting to a total of $700m. Benin, Cameroun, Ghana, Guinea, Kenya, Madagascar, Niger, Nigeria and Zaire are others scheduled to receive debt relief.

A US official said Malawi was strongly committed to structural adjustment and was regarded as "a leader" in Sub-Saharan Africa. The Government of President Kamuzu Banda has been implementing an economic recovery programme supported by the IMF and World Bank since early 1981.

Ethiopia agrees to talks with Eritreans

By Michael Holman, Africa Editor

THE Ethiopian Government and Eritrean rebels yesterday agreed to hold formal peace talks next year, but an acrimonious press conference which ended preliminary discussions highlighted the wide gap between the two sides

Mr Jimmy Carter, the former US President who has been presiding over the talks in Nairobi between the Government and the Eritrean People's Liberation Front (EPLF), read out a communique committing both sides to full negotiations. These would be co-chaired by Mr Carter and Mr Julius Nyerere, the ex-president of Tanzania.

At the press conference in the Kenyan capital which concluded three weeks of discussions, delegates from the two sides exchanged angry accusations of bad faith, and quarrelled over terms on which the next round of talks will take place. Neither venue nor precise date has yet been set.

Mr Carter, who first brought the parties together in September at his home state of Georgia, commented wearily: "I've heard this kind of talk for 20 days." But he added: "In spite of the language they are using, we are moving forward. The peace process has continued and will continue."

Meanwhile, drought in Eritrea, and in adjacent Wollo and Tigray provinces, where the Tigray People's Liberation Front (TPLF) are fighting the government of President Mengistu Haile Mariam, has left at least 4m people in urgent need of food aid. But the civil conflicts are an obstacle to aid, and food convoys are forced to travel at night.

Estimates of the amount of food required vary. Even in a "normal" year, Ethiopia needs to import some 300,000 tonnes. UN officials say that an additional 500,000 tonnes will be required in 1990, but Eritrean and Tigrayan relief agencies put their combined total at nearer 700,000 tonnes.

Officials from British voluntary agencies yesterday stressed the need for additional trucks. Some 200 vehicles are operating in Eritrea, but as many as twice that number were needed if all the 1.9m people at risk in the province are to be fed.

Few observers believe that a negotiated settlement between President Mengistu and the EPLF, and the TPLF with whom talks have been taking place in Rome, is likely. A series of guerrilla victories has left the two parties confident that the Addis Ababa government has been fatally weakened, and talks with Mr Mengistu's successor would stand a better chance.

Environmentalists score a paper success in Irian Jaya

John Murray Brown reports on the abandonment of a eucalyptus paper project in Indonesia's most easterly province

BETWEEN the church mission and the Government a new breed of evangelist has arrived in Irian Jaya, Indonesia's impoverished easterly province – one of the world's *last true frontiers.*

The environmentalist, armed with his own holy scriptures, is currently weighing the success of his first conversion following the decision last month by Scott Paper Company of the US to pull out of a controversial $654m eucaluptus paper project in the south of the province.

In the words of an official statement the Philadelphia-based tissue manufacturer has reassessed its raw material needs and decided to use "more cost effective recycled and high yield fibres."

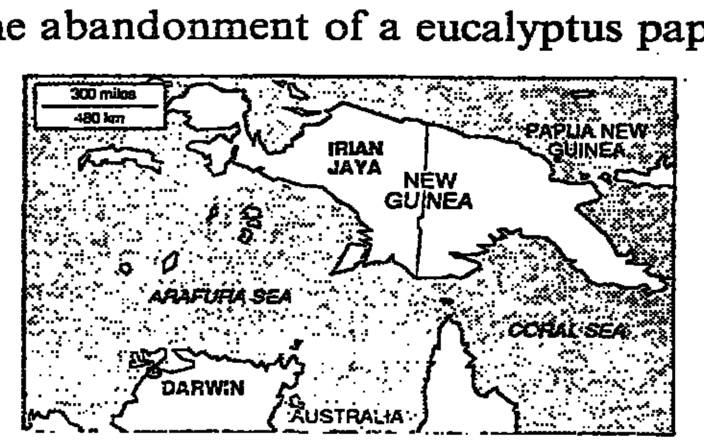
It is for all that probably the first time anywhere in the world a leading corporation has abandoned an environmentally sensitive project.

Scott's decision was taken just *days after the company* was cited in a full-page advertisement in the New York Times by the San Francisco based Rainforest Action Network which warned the project among others could endanger *the tropical forest and cause* warming of the climate through the greenhouse effect.

It provides further evidence of the bold and increasingly sophisticated lobbying skills of Indonesia's own greens, already active against a variety of projects from a World Bank funded irrigation scheme, a pulp and rayon plant in Sumatra and a golf-course devlopment near the capital, Jakarta.

One sure result is the Government will be forced to rethink its development strategy at a time when it is desperately searching for new exports to make up for the fall in oil earnings.

Indonesia is endowed with some 110m hectares of rainforest which scientists describe *as one of planet's most biologically* diverse natural habitats. According to the UN Food and Agriculture Organisation every year around 1m hectares is lost – more than the UK Forestry Commission has planted in 40 years since the Second World War.



Traditional slash and burn agriculture is blamed for much of the damage. The problem is *compounded by bad forest* management by the 500 concessionaires who control Indonesia's 55m hectares of production forest. Land has also been converted for tree crop cultivation and the Government's sponsored resettlement programme.

Some environmental damage seems unavoidable. Indonesia after all is a poor country of *175m people, where 2m jobs* and more than $5bn in debt service charges must be found every year. New investments inevitably mean increased energy use – the other big cause of global warming. Manufacturing, an area where Indonesia has a competitive edge in part because of its present lack of environmental controls, is seen as an key growth area.

Also targeted to expand is the timber products industry, currently the largest earner after oil and gas. Indeed in 1988 pulp and paper sales rose a massive 200 per cent. Arguably in Irian Jaya, a province the size of Spain or California, the real need is for more development not less.

Because of chronic isolation many of the region's 1.5m people are only just emerging from a brutal near-Stone Age existence, either as hunter gatherers or growing sweet potatoes, without the help of draught animals – let alone the wheel.

Scott chose a location near Merauke because of its low population density, high rainfall and the fact that eucalyptus is a native species. It is also well placed to target markets *in Japan and South Korea.*

The idea was to plant 200,000 hectares in a 550,000 ha concession – an area about the size of Wales. The project involved the construction of a pulp mill. The company expected to employ some 6,000 people and earn around $200m in foreign exchange a year.

Forestry consultants from Brazil, Finland and Sweden as well as Scott's own staff had already spent $2m and more than a year's work on nursery preparation and the collection of eucalyptus seed from more than 100 separate geographic sites around the world.

Mr Veikko Silander of the Finnish Forest Research Institute describes it as the best scientific field study ever done into eucalyptus propagation. It would *have been* Indonesia's largest single foreign investment outside the oil and gas sector.

But local groups warned the siting of a large eucalyptus plantation could cause serious watershed pollution. A monoculture plantation would also have an adverse impact on bird and animal life on which the local tribes depend.

Over the longer term such a large project could destroy the biodiversity of a region the scientific and commercial benefits of which are still all but unexplored. Scott also made the mistake of negotiating compensation with one tribe when locals say five or six are affected by the project.

Ironically groups like YPMD, the Irian Jaya Rural Community Development Foundation now wonder whether Jakarta's latest move to award the project to a Taiwanese or Japanese business may turn out more damaging to the surroundings and the local people.

AMERICAN NEWS

Rebels move to encircle army HQ

EL SALVADOR'S left-wing FMLN guerrillas have again closed the western highway out of the capital, San Salvador, and occupied parts of upper-class suburbs in the west and north-west of the city and the campus of the Central American University. The US embassy was closed, and shooting has been taking place around the British embassy, writes Tim Coone.

Fighting began early yesterday morning, and continued throughout the day. The guerrilla tactics appear to be aimed at encircling the army headquarters in the west of the city. Helicopter gunships were yesterday strafing guerrilla positions within half a mile of the headquarters.

The guerrilla radio station, Venceremos, has advised residents of the western suburbs to evacuate their homes to avoid aerial bombardment. The homes in these wealthy suburbs are ready-made fortresses for the guerrillas. Thick cement walls topped with barbed wire surround many private properties. The rebels have also demanded the evacuation of three leading hotels.

Skirmishes have also broken out again along the northern perimeter of the capital after a lapse of a week.

A second phase in the offensive has been widely expected for over a week. It is not yet clear whether the latest fighting marks its beginning, or is merely a series of diversionary thrusts by the FMLN aimed at keeping the armed forces off-balance.

Assault on San Salvador prompts bloody backlash

Tim Coone reports from the war-torn capital

TROOPS, alert for snipers, swayed in the back of an army truck as it rumbled over the potholes of the war-torn streets of Mejicanos in San Salvador. Seated on the floor were a dozen civilians, blindfolded with hands tied behind their backs. The backlash against the guerrilla offensive has begun.

The detainees in the truck had been arrested under a new anti-terrorist law rushed through the National Assembly this week. The legislation gives the government sweeping powers to arrest, detain and imprison guerrilla suspects and sympathisers.

But for some even these draconian laws are not enough and once again mutilated bodies are appearing on the streets in the violent reaction to the latest guerrilla offensive which has claimed over 1,000 lives in the capital alone in the past few weeks.

Mr Ruben Zamora, a leader of the centre-left Convergencia Democratica (CD) alliance, now wears a bullet-proof jacket in public, although his public appearances are no more than trips between semi-clandestine meetings with journalists, fellow politicians and diplomats. "The political space for opposition has almost disappeared," he said.

As a one-time political ally of the FMLN guerillas he is a prime target for the right-wing death squads.

His divergence with the guerrillas came earlier this year during the presidential elections in March. The CD put up candidates. The FMLN proposed a six-month postponement of the elections to allow for negotiations for their participation, which was refused and so the FMLN then tried to disrupt them.

The right-wing party Arena of President Alfredo Cristiani won with a 50 percent voting turnout. The guerrillas claim the abstentions as theirs.

The FMLN offensive has been an effort to prove its military capability, to test support in the cities and to try once again to force the government into substantial negotiations. There was no widespread insurrection, but equally the guerrillas did not suffer defeat. The government has however hardened its stance, and both sides now seem intent on establishing military superiority.

The FMLN leadership said this week that the bringing of the war to the capital and other major cities "is the final stage of the war". In the past week, following a tactical withdrawal of the guerrillas from the positions they held during the first week of the offensive, fighting has been limited to minor skirmishes on the outskirts of the city. The curfew hours are filled with a tense calm. Everyone is awaiting the next blow.

In Calle Progreso which means Progress Street, an area of Mejicanos suburb, a man who would give his name only as Manuel pointed out where bullets and grenades had destroyed parts of his house as he, his wife and four children had sheltered in their bedroom two weeks ago. When air bombardments started they all fled only to return a week later after the guerilla withdrawal.

He pointed to a pair of packed bags: "We are ready to leave again at any moment". "It is the air force we fear the most," said one middle-aged woman whose house has been spared the damage suffered by others in her neighbourhood.

Indeed, the heaviest destruction has been limited to specific areas which the guerrillas had established as strongpoints. Where the guerrillas put up their most tenacious resistance to government counterattacks, bombs, rockets and machine guns have left their scars on entire blocks of housing. But just a few streets away not a sign of the fighting can be seen although local people say the guerillas were present in the entire suburb for over a week.

During the fighting, residents of the war-torn suburbs say both the guerillas and army behaved well given the circumstances. "The guerillas paid for the food they took" said one 25-year old man. "If the guerillas or soldiers occupied a house they moved the civilians out first" said a woman neighbour of his. Only after the guerilla withdrawal came the problems. House-to-house searches by the army has resulted in thefts of valuables and money according to residents of the Mejicanos suburb. "If you carry a card identifying you as a university student you are in danger" said one young man who saw a friend of his beaten up and dragged away.

After the 1981 so-called "final offensive" of the FMLN guerillas, thousands of students, trade unionists and suspected guerilla sympathisers were murdered by right-wing death squads. There is clearly a fear the same will happen again, especially as the alleged organiser of the death-squads Major Roberto d'Aubuisson is a leading figure in the ruling Arena party.

The FMLN says it has learnt its lesson of 1981 and will not abandon its supporters to their fate this time. The much-expected second phase of this offensive is intended precisely to keep the army and security forces on the defensive and apparently to secure control of important areas of the cities and the countryside. But if the second phase now fails to materialise - the guerillas' continuing inactivity of recent days is beginning to raise doubts in this respect - it may prove that the FMLN has made a serious and possibly disastrous misjudgement of its capabilities.

Salvadorean guerrilla takes cover in the capital

Hopes recede of cut in US prime lending rates

By Janet Bush in New York

HOPES OF imminent cuts in US prime lending rates appeared to recede even further yesterday when Southwest Bank of St Louis, which boldly cut its prime rate to 10 per cent earlier this month on hopes of a further easing in monetary policy, quietly raised it again to 10.5 per cent.

The bank said its decision came in response to signals from the US Federal Reserve this week that it did not intend to lower interest rates any further at this stage.

Last week, the Fed aggressively added reserves to the banking system and prompted virtually unanimous belief in financial markets that it had lowered its target for Fed Funds, the rate at which commercial banks lend to each other overnight, to 8¼ per cent from 8½ per cent.

This week, in an abrupt about-face, the Fed drained funds from the market aggressively, apparently to signal to markets that its target for Fed Funds remained at 8½ per cent and that it did not want expectations for lower interest rates to take hold.

The Southwest Bank of St Louis, which has made a name for itself in leading interest rate cuts, lowered its prime early this month after the Fed eased its Fed Funds target to 8½ per cent from 8¾ per cent, betting that another move to lower interest rates was on the way. Leading money centre banks chose to delay lowering their prime rates until the Fed made a clear move to an 8¼ per cent Fed Funds rate.

The Fed's handling of its interest rate signals to markets over the past week has come in for widespread criticism.

● Nancy Dunne adds from Washington: The US economy grew at a moderate annual rate of 2.7 per cent in the third quarter, up from 2.5 per cent in the second quarter and higher than first predicted, the US Commerce Department said yesterday. The revised Gross National Product report confirmed the estimates of most forecasters, who also believe the economy is slowing in the current quarter.

The Department raised by 0.2 per cent its preliminary estimate of GNP because of larger than expected net exports in September.

Ally of Brady expected to fill vacancy on Fed

By Peter Riddell, US Editor, in Washington

MR David Mullins, an assistant secretary at the Treasury, is set to be appointed to the vacancy on the Federal Reserve Board created by the resignation last summer of Mr Robert Heller as one of the Washington-based governors.

Mr Marlin Fitzwater, the White House spokesman, said Mr Mullins was the top candidate and a formal announcement could come any day.

Mr Mullins, aged 43, is a close ally of Mr Nicholas Brady, the Treasury Secretary, and his appointment is being seen in Washington as putting someone sympathetic to the administration's views in a key role in setting monetary policy.

This follows differences of emphasis this year between the Treasury and the Fed on the timing of reductions in interest rates and on the scale of intervention in foreign exchange markets.

Mr Mullins' background is as a specialist on US financial markets and the banking system rather than in macro-economic and monetary policy.

He was one of the main authors of the administration's legislation this year for rescuing and reorganising the savings and loan industry. Before joining the Treasury in October 1988 he taught at Harvard Business School.

Mr Mullins was associated with Mr Brady on the presidential commission on the implications of the October 1987 stock market crash.

IRS investigates 'gifts' to bank official in Atlanta

By Roderick Oram in New York

THE deputy manager of Banca Nazionale del Lavoro in Atlanta received a $289,960 kickback from Entrade, a US subsidiary of leading Turkish company Enka, for arranging unauthorised letters of credit, the US Internal Revenue Service has alleged.

Speaking through his lawyer, Mr Paul Von Wedel said the money was a gift from a person who he had helped to establish a trading business in the US. Entrade, set up in New York City in 1982, said no official of the company was available for comment.

Mr Von Wedel was fired by the Italian bank in September for his alleged role in extending some $3bn of trade credits to Iraq without seeking approval from the bank's Rome headquarters.

Mr Von Wedel's alleged role surfaced when he filed a suit to try to stop the Internal Revenue Service from collecting $255,510 in taxes and penalties on Entrade's 1987 payment to him.

Further delay for Nevada N-waste dump

By James Buchan in New York

US Government plans to build a nuclear waste dump in the Nevada desert have suffered a further delay, raising a new set of questions about the future of the nuclear power-generating industry and the production of nuclear weapons in the US.

The Department of Energy confirmed yesterday that it did not now expect to have ready a dump for highly radioactive wastes from commercial and military reactors until 2010 at the very earliest.

The department's original plan was to start receiving spent fuel from civilian and military reactors at Yucca Mountain, north of Las Vegas, by 2003.

The new schedule means that it will be at least another generation before the US nuclear power industry has a permanent site to store its spent fuel rods, which remain dangerously radioactive for thousands of years.

Nuclear utilities, which have paid over more than $3bn since 1983 to finance work on the search for a permanent dump, are running out of space to store the spent rods at their plants.

The delay is also a blow to supporters of a new generation of civilian nuclear reactors. No new plant has been ordered in the US since 1978.

Waste is also building up at the far-flung network of nuclear weapons plants, some of which date back to the late 1940s. A dump for plutonium wastes in New Mexico has largely been built, but to date has failed to open because of doubts about its design.

The Department of Energy said yesterday that the main reason for the delay at Yucca Mountain is the fierce opposition of the State of Nevada to the project.

Although the site is on federal land, Nevada has refused to issue environmental permits for department engineers to carry out geological tests at the site.

In addition, Admiral James Watkins, the Energy Secretary, is said to be "dissatisfied" with work done at the site since 1987 when Congress ordered the department to concentrate all its efforts at Yucca Mountain.

WORLD TRADE NEWS

Hungary presses US for CoCom rules waiver

By Lionel Barber in Washington

HUNGARY is pressing the US to grant a waiver on CoCom controls so it can upgrade its telecommunications industry with Western technology.

A Hungarian trade delegation told senior Bush Administration officials this week that, without such an exemption regarding curbs on potentially sensitive exports to the Eastern Bloc, US companies seeking to bid for the telecommunications contract would be at a disadvantage.

West German, Canadian and US companies are interested in winning the business, a joint venture.

Mr Tamas Beck, the Hungarian Trade Minister, said his Government hoped to reach an understanding with the US guaranteeing that the end user of the technology would be Hungary. "If CoCom is working, then we won't have the best equipment. If we don't buy from the US, then we will have to go elsewhere," he said.

Joint ventures are the designated vehicle for foreign investment in Hungary. This year, joint ventures with Western participation rose rapidly to 650. West Germany leads, Austria is second. The US, with 50 joint ventures, lags.

Mr Beck praised General Electric's recent $150m (£96m) investment in Tungsram, the lighting manufacturer. Talks were also underway for a "very big investment" by General Motors in a car engine manufacturing plant in co-operation with Raba, the truck and vehicle parts manufacturer.

Hungary's bilateral trade with the US amounted to $562m in 1988. This year it could rise to more than $600m, but Budapest hopes to reach more than $1bn by the early 1990s.

The Hungarians would like to open an office in California to boost trade. Because Hungary remains a member of the Warsaw Pact, Mr Beck was told that another six FBI agents would have to be assigned to watch the new office – something which the agency could not at present afford.

A £7.8bn hand-out which leaves nobody satisfied

Lucy Kellaway on the new EC pact with 66 Third World countries

AFTER two years of painstaking preparation by the 12 donors, the world's biggest single aid package is on the table.

The 66 recipients countries, among the world's poorest, are not happy: they regard the Ecu10.7bn (£7.8bn) in aid and related trade arrangements offered by the EC on Monday night as mean. The countries complain they have been shoved aside in favour of Eastern Europe. However, their bargaining position is not strong and, give or take a few face-saving ecus which might take the deal up to Ecu10.8bn, the accord, Lomé IV, should have the signatures of everyone by the end of the year.

The agreement will be the most important since the first deal between the EC and the African Carribean and Pacific (ACP) states was struck 25 years ago. The ACP is more needy than ever: its terms of trade have deteriorated sharply as a result of the fall in prices of most commodity exports, while most states face serious debt problems. This time, the convention will span 10, rather than the usual five years, during which world trade patterns will change – possibly to the detriment of the ACP – as a result of the Uruguay Round of the General Agreement on Tariffs and Trade and the creation of a single market in Europe.

It is not surprising if Lomé IV has failed to satisfy everyone. On the side of the donors, the Northern states – the UK and West Germany in particular – have pushed for more generous trade terms with the ACP states but been parsimonious over aid. The Southern states, which feared for their own economies, argued for less favourable access to EC markets in agriculture but for larger amounts of aid.

As for the 66 recipient countries, they are such a mixed bunch in size, population and need, that it might seem impossible to draw up a convention to benefit all. The aim, said one negotiator, was to provide each with "the thing that is most important to them" but the response from the ACP suggests that there is simply not enough to go round.

Although the Ecu10.7bn – to which will be added Ecu1.1bn loans from the European Investment Bank – represents an increase of 40 per cent in nominal terms, the extent of the real increase is doubtful. According to the EC, the package is 20 per cent higher than the old one; whereas the ACP has argued that a 50 per cent increase was needed simply to account for inflation and the rising population.

To those that argued that the whole basis of Lomé needed to be changed to cope with the worse North/South imbalance, Lomé IV will look as disappointing as Lomé III. However, there have been some big departures. The most important is the inclusion of a structural adjustment fund, an attempt to make Lomé more responsive to the macro-economic changes and to the shape of aid being granted by the IMF and the World Bank. A facility of Ecu1.1bn has been set up for countries already receiving such money from the Bretton Woods institutions, and to others that abide by similar EC terms.

Lomé IV contains important concessions on trade, which for many countries are more important than volumes of aid. The EC is by far ACP's most important trading partner, with exports to the Community of about Ecu26bn a year. Under the existing agreement, ACP countries have free access to EC markets for most of their exports, although access in areas covered by the Common Agricultural Policy has been limited.

Lomé IV opens up these markets slightly, by allowing the ACP to export slightly larger volumes of agricultural products from strawberries, to yams, cheese and cherry tomatoes. The ACP says these concessions are far too slight.

The new convention also contains more favourable rules of origin for manufactured goods, requiring that 45 per cent of the value, rather than the existing 60 per cent, be added in the country concerned.

The Stabex fund, which guarantees the export earnings of the ACP countries in certain commodities against a fall in their market price, has also been improved. As part of this improvement, the size of Stabex, which under Lomé III could not meet the demands made on it, has been increased to Ecu1.5bn and has been broadened to cover exports to non-EC countries.

The original convention contained protocols on bananas and rum which have also been changed in preparation for the single market. Not only will individual country rum quotas be lifted, but the EC has paved the way to the removal of rum quotas by 1995. The agreement on bananas consists of a promise to ensure that the ACP banana producers – many of whom are entirely dependent on the crop, but whose costs are so high that they would be wiped out without the protection on Europe – do not loose out after 1992, when it will be difficult for EC member states to extend preferential arrangements to third countries.

Three new members have been admitted to the ACP club: Haiti, the Dominican Republic, and Namibia. Extending membership to the first two was controversial, as neither was recently a European colony, and the wording of the accession of the Dominican Republic has been drafted so as not to open the door to other Latin American countries.

Over the next few days, the French presidency, which is anxious to get the convention signed on December 11, will be passing around the hat for another Ecu100m to assure the grudging support of the ACP. Lomé IV might not be all they wanted, but it is an improvement on what they have already.

LOME CONVENTIONS

No.	Date	No. of countries	Total Aid (Ecu million) EIB*	EDF**
1	April 76	46	400	3,100
2	Jan 81	57	700	4,700
3	May 86	66	1,100	7,400
4	Spring 90	68	1,100	10,700

*European Investment Bank **European Development Fund

US 'puzzled' by Japanese satellite policy

By Robert Thomson in Tokyo

THE US yesterday insisted that Japan allow fair competition in public sector procurement of satellites and not use prohibitive procurement policies to foster the domestic satellite industry.

Mr Joseph Massey, the assistant US Trade Representative, said a bilateral round of market access talks on satellites had left the US "puzzled by the apparent contradiction in the Japanese policy on satellites."

He suggested that plans by Japan's Ministry of Posts and Telecommunications to use a Japanese satellite to expand capacity was unusual, as the US had been told that the ministry had sufficient satellite facilities of that kind and did not need to purchase a US-made satellite.

The talks, completed yesterday, were the second round of a series designed by the US to open the Japanese market to competition. Satellites, supercomputers and lumber products have been targeted by the US as areas liable for action under the punitive Super 301 section of trade legislation.

Mr Massey said Japanese officials have taken the talks seriously and that "both sides deepened their understanding," though "the public sector procurement of satellites should be covered by fair and open competition." He said the US did not condemn government-supported satellite research but wants distinctions made between "science and business" and between "development and procurement."

Norwegian ships seek flag change

By Karen Fossli in Oslo

NORWEGIAN shipowners with ships registered under the Panamanian flag are preparing to seek new registries to avert a boycott being considered by the US of Panamanian registered ships calling on US ports.

The US is understood to be considering the boycott as part of measures designed to put pressure on General Manuel Noriega, Panama's military dictator.

There are 53 Norwegian-owned ships registered under the Panamanian flag of convenience. However, in total, there were, as of July 1, 3,378 ships, or 75m dead-weight tonnes (dwt), flying the Panamanian flag. Of the total, it is estimated that 50 per cent involve Japanese ownership interests. The second largest number of ships is owned by US interests.

Norwegian government officials have already been notified by the US of the possible boycott but shipowners in Norway fear that the boycott order could be signed by President George Bush this week to become effective from the end of January.

In addition, the possibility of the boycott has forced banks involved in ship financing to reject those which are considering Panamanian registration.

The Norwegian Shipowners Association, which promotes the Norwegian International Ships Registry, is expecting an influx of Panamanian registered ships into the registry.

However, officially the association does not endorse boycotts as a tool in trade policy and has requested more time from the US before the boycott is implemented. As of last week, the Norwegian registry had more than 700 ships, or 20m dwt. Leif Hoegh, a big Norwegian bulk carrier owner, is preparing to transfer its 17 Panamanian-registered ships to other flags. Five ships will be transferred to the Norwegian registry and the remainder will be transferred to the Bahamian flag.

White House urged to review export controls

By Nancy Dunne in Washington

A PANEL of private sector advisers to the Bush Administration yesterday urged the Government to streamline the CoCom list of multilaterally-controlled technologies and review export controls.

In a report on Europe 1992, presented yesterday to Mrs Carla Hills, the US Trade Representative, the Advisory Committee for Trade Policy and Negotiations warned that EC plans to exert more authority over export controls "could increase tensions between the US and EC over their differing approaches to technology transfer".

The committee, chaired by Mr James Robinson, chairman of American Express, warned of resentment among Western nations towards "the US tendency to resort to foreign policy trade sanctions to penalise Soviet and other nations' political behaviour and the application of extra-territorial controls".

The CoCom list controlling potentially sensitive exports to the Eastern Bloc should include only items of critical military importance to the Soviet Union and its allies, the report stressed.

Other 1992 issues were identified by the committee, which recommended that the Government, among other things:

● Press the EC to extend fully competitive procedures for suppliers of non-EC products in public procurement.

● Formalise and clarify recent agreements with EC standards-setting organisations.

● Apply pressure on the EC for greater clarity and predictability in rules of origin and for the elimination of local content rules in anti-dumping settlements.

UK businessmen 'eager to renew Argentine links'

BRITISH businessmen would like to return to the days before the Falkland Islands war when the UK was Argentina's number one trade partner, a senior British banker said on Tuesday, Reuter reports from Buenos Aires.

"Britain was once Argentina's main trading partner. . . and there is no reason why that should not be regained," Sir William Harding, Lloyds Bank's adviser for Latin America, told the Argentine-British Chamber of Commerce.

Sir William is one of 53 businessmen in the first British trade mission to Argentina since the war in 1982. The delegation includes representatives from British Petroleum, General Electric and Dunlop Tyres International.

"A lot of British firms still remember, with affection, the strong ties they have had with Argentina in the past. Argentina is a well-known country, and was even before 1982," Sir William said in a luncheon speech.

Argentina had the largest British community outside the Commonwealth before the Second World War. British entrepreneurs and managers built and ran many of Argentina's railways, telephone companies and utilities before most of those businesses were nationalised in the 1940s and 1950s.

Ties between the countries were cut after the war. Argentina claims sovereignty over the Falklands and other South Atlantic islands under British rule.

Bilateral trade dried up to under $100m (£62.5m) last year from $850m the year before the war. Argentina and Britain agreed to resume consular ties and lift trade restrictions last month in Madrid, after President Carlos Menem of Argentina started making conciliatory gestures toward London.

Asked if recent reforms in Eastern Europe would make that region more interesting than Argentina for British investments, Sir William said he doubted it. "Not many investors are tempted to put much more than a toe in the water of Eastern Europe."

Members of the British mission, headed by Viscount David Montgomery, are due to meet President Menem today.

London SE settlements blueprint faces upheaval

By Richard Waters

THE COMMITTEE preparing the blueprint for the London stock market's long-awaited paperless clearing and settlement system, Taurus, is planning extensive changes just two weeks after setting out its earlier plans.

The changes would greatly reduce the costs of Taurus for stockbrokers and maintain a place for company registrars in the post-Taurus stock market.

The changes were welcomed in the City of London yesterday as a way of appeasing some of the opponents of Taurus, which is seen as vital to London if it is to retain its position as Europe's leading financial centre.

The Securities Industry Steering Committee on Taurus (Siscot) has not abandoned the basic design for the system, which was adopted earlier this year. It is still planned that all shares will be held in the nominee accounts maintained by brokers, registrars and others, which will be known as Taurus Account Controllers (Tacs).

To pull together a full picture of a company's shareholders, it will still be necessary to launch a search through a Listed Companies Access Service, which will assemble all the information held by the Tacs to produce a complete picture – a system which has raised concerns among listed companies.

Under the changes, however, these Tacs will in effect be able to opt out of the responsibility of maintaining the sole record of their clients' shareholdings, as had been planned under the original scheme, and will be able to pass the responsibility back to the registrars.

They will do this by passing information about all share transactions to registrars through the Stock Exchange's Inter-Dealer Network. These registrars will then maintain the records of shareholdings.

The result, commented one observer yesterday, was to preserve exactly the same system as was currently in use, although without the paper.

The changes mean that brokers will be able to relieve themselves of much of the record holding costs associated with the previous Taurus design.

The burden on the Listed Companies Access Service – the subject of the committee's consultative paper to about 50 listed companies two weeks ago – would also be reduced. Companies will be able to obtain information about who owns their shares from their registrars.

However, there are still expected to be a few large Tacs which stick to the original Taurus plan and keep their own records of shareholdings.

● Banks should write regularly to their customers explaining their charges, according to the Banking Ombudsman's annual report, published yesterday, writes David Barchard.

The Ombudsman (an official who investigates complaints) says that would help to diminish the sense of grievance customers frequently feel against their banks.

"What the customer needs to know is what services he will be charged for and how much he will be charged," the report says.

However, it also says customers often do not realise the heavy cost to their bank of the services they receive.

During the past year, complaints to the Banking Ombudsman's office rose by 30 per cent to more than 2,700.

UK 'to resist EC charter provisions'

By Ivor Owen

THE British Government would continue to resist attempts to include provisions in the European Community's social charter imposing compulsory schemes of worker participation on British companies, Mr Norman Fowler, the Employment Secretary, assured the House of Commons last night.

He insisted that minimum wages, holidays and hours of work were other issues which should be decided by arrangements permitted by national governments rather than by regulations framed in Brussels.

Mr Fowler maintained that the Social Charter, in its existing form, would have the effect of adding to industry's costs, with the result that jobs would be destroyed instead of created.

He argued that the Government was being consistent in wanting to see employment increasing and unemployment falling right across Europe. Mr Fowler stressed "We want to see sustained growth in the economies of Europe,not a damaging flood of new regulations and restrictions from Brussels".

He indicated that the Government would be prepared to support a charter which was concentrated on areas requiring Community wide action, such as health and safety at work, the recognition of professional qualifications, and the free movement of labour.

Enabling bill moved on Europe contracts

By Robert Rice, Legal Correspondent

THE Government yesterday published a Bill to enable it to ratify the 1980 Rome Convention on the law to be applied to contracts with a foreign element.

Where a contract involves more than one EC country, the Rome Convention lays down the principles for deciding which country's law will govern the contract irrespective of whether that country is a party to the convention or not.

Ratification will involve only minor changes to UK law since the Convention's two basic principles are common to existing UK law. The first is that the parties to a contract are free to choose the law which should govern it; the second, that if they do not make a choice, the contract will be governed by the law of the country with which it is most closely connected.

According to the Lord Chancellor's Department the Bill will place the law in this area on a clear statutory basis instead of being contained in diverse and sometimes uncertain case law.

Harmonisation of these principles should assist in the free movement of goods and services as completion of the Single European Market approaches, the Government says. It also expects clearer laws to lead to less litigation.

The Rome Convention is a convention between EC member states signed by the UK in 1981. It will come into force once ratified by seven of the nine states who signed it: to date six states have ratified it.

The Contracts (Applicable Law) Bill will also enable the Government to ratify the 1984 Luxembourg Convention on the Accession of Greece to the Rome Convention and two protocols on the jurisdiction of the European Court of Justice to interpret the conventions, signed in 1988. The delay in ratifying the convention by the UK is due to the time taken to negotiate the two protocols, the Government says.

The Bill will give the conventions the force of law in the UK. Certain matters are however excluded from the scope of the convention, including contracts more closely related to family law, trusts, wills and succession, certain insurance contracts and questions governed by company law.

Although the convention is made between EC member states it will apply to all contracts with a foreign element, whether with and EC member state or not, which come before the UK courts. It will also apply to intra-UK contracts.

The Convention will not prevail over other international conventions containing rules covering which law will govern the contract, such as the international conventions on the carriage of goods. Nor does it prevail over EC law.

MCA to offer plans for £2bn theme park

By David Churchill

PLANS to build what could be Britain's biggest tourist attraction – a theme park and film studios on a 1,000 acre site in Rainham, Essex – will be formally submitted next week by MCA, the US-based entertainment company which operates the Universal Studios theme parks in California and Florida.

The cost of building the studios has been estimated at almost £2bn.

MCA said yesterday that the proposed studios would be the first ever built outside the US by an American film corporation. The theme park would consist of rides based on popular films and television programmes.

MCA said that the final decision on where to site the park – either at Rainham or near Paris – would be taken next March.

Mr Steven Spielberg, the film producer, will be a creative consultant for the project.

If planning permission for the project is granted and the Essex site chosen, then the theme park and studios could be open by 1994. MCA said yesterday that some 20,000 jobs would be created, either directly or indirectly.

There would also be an average of 6,000 construction jobs for the first three years and 2,000 jobs for the following 10 years, MCA said.

The project would be built by British Urban Development, a consortium of 11 leading British construction companies including Wimpey, Costain, and Tarmac.

The Rank Organisation would also be involved in the project and the BBC is understood to be considering using the studio facilities to produce television programmes.

Mr Tony Young, president of MCA Enterprises International, said: "The core of the project is a working film and TV studio, where MCA will produce European films. It will compete with any similar development anywhere in the world."

MCA said it would also retain 310 acres as a nature reserve and set up an ecological field centre for scientific studies.

Most leisure analysts, however, expect that the theme park will be built outside Paris.

This is because of the large drawing power expected for Euro Disneyland, which opens in 1992, and the more accessible transport links with the rest of continental Europe which are being provided for the centre.

Euro Disneyland has already announced plans to open a film studios-based theme park on the Paris site in 1995, similar to the Disney/MGM studios opened earlier this year at Walt Disney World in Florida.

MCA, which already has one Universal Studios theme park in Los Angeles, California, is next month opening its second theme park in competition with Disney at Orlando.

The Essex film studios and theme park would also include hotels and conference facilities, as well as a multi-screen cinema complex.

● Britain is on course for a record year of incoming visitors, according to Government figures published yesterday.

The number of overseas visitors in September rose by 7 per cent in comparison with the same month last year.

This means that the total for the first nine months of the year has risen by 9 per cent compared with the first three-quarters of last year.

Spending in the UK by overseas visitors in September rose by 15 per cent to £745m, while for the first nine months it increased by 9 per cent to £5.19bn.

The number of Britons going abroad in September rose by only 1 per cent to 3.8m, compared with the same month last year, although the cumulative total so far this year was 24.4m.

Fimbra rebels rally the troops for a revolution

"IT IS nothing less than an attempt by vested interests to hijack a regulatory body." The sentiment, expressed yesterday by one of the City of London's regulatory organisations, sums up what many fear is fast becoming the most damaging challenge yet to the system created by the Financial Services Act.

Representatives of three trade associations with members regulated by the Financial Intermediaries Managers and Brokers Regulatory Association (Fimbra) said yesterday that they believed they have now enough support to force the resignation of Lord Elton, Fimbra's chairman, at its Annual General Meeting on December 13.

Already, 2,500 proxy votes supporting a resolution to unseat Lord Elton – together with 15 of the other 22 Fimbra council members – have been lodged, and the rebels claim to have received a further 500 votes supporting their cause. Add to that the 500 dissidents they expect to vote at the AGM in person, and the beleaguered Fimbra chairman would need to assemble at least 3,500 votes to remain – a tall order, given the total membership of 8,900 and the likelihood that apathy will prevent many from voting.

The rebels suggested yesterday that they were prepared to compromise. Mr Andrew Paddick of the Institute of Insurance Brokers, the leader of the group although not himself a member of Fimbra, said it was likely that they would cast the proxy votes in their control against Lord Elton, but not press for the resignation of the other council members.

Whatever the outcome, the rebellion already marks a severe test for Britain's self-regulatory system. In the words of one regulatory body yesterday: "It is passing some unfortunate messages to the world" if the Fimbra membership is not prepared to accept what the regulators have worked towards since the Financial Service Act came into force 18 months ago.

Self-regulation was always seen as a delicate British compromise, saving the country's financial services industry from the grip of statutory regulation familiar elsewhere in the world.

Fimbra's traumas now show the logic of self-regulation being turned on its head. Proponents of this form of regulation claimed that, by giving practitioners much of the say in regulating themselves, though within a statutory framework, consumers would benefit from a flexible form of regulation, while practitioners would be freed from the dead hand of insensitive regulation.

What they did not bargain for was what would happen when the practitioners rebelled against the practitioner-based regulators. This signals all-out war between the two sides. Whatever the outcome, the system which has allowed the dispute to arise has been called into question.

The spark that set the dispute alight was provided by Fimbra and appears to cast severe doubts on its approach to sensitive regulatory issues. However, few doubt that ill feelings have been smouldering for some time and needed little to set them alight.

Britain's self-regulatory system is being called into question, says Richard Waters

Fimbra's error of judgment was to propose a compulsory professional indemnity (PI) insurance scheme to which all its members would have to belong, regardless of the fact that many already had their own PI arrangements. Fimbra chose as exclusive brokers to the scheme Pointon York Vos – something which was guaranteed to arouse resentment in an industry comprised partly of insurance brokers, regardless of the restrictive nature of the arrangement.

The Pointon York scheme was dropped by Fimbra at the final hour over a dispute with the underwriter about the extent of insurance cover provided; although sceptics claim that it was the depth of ill-feeling among its members which caused the change of heart.

By then, it was too late to stamp down fire of resentment.

The rebels claimed yesterday that Fimbra has consistently failed to list – or even ask for – its members' views. This will strike a ironic note in many parts of the City, where Fimbra has frequently been seen as erring too far on the side of being a trade association rather than a regulator.

Mr Mike Owen, another of the leaders of the revolt and chairman of the National Federation of Independent Financial Advisers, pointed to the lack of communication between Fimbra and its members as a major cause of resentment; and, according to Mr Paddick, Mr Owen added that with only six of its council members directly elected by members, there had been a failure to take account of what members wanted.

A further cause of resentment has been the salaries of Fimbra's leading executives – seen as disproportionate in an industry where practitioners have been squeezed out of business or forced to give up their independence by the costs imposed by the Financial Services Act. The rebels also claim Fimbra has lost control of its costs.

Fimbra's accounts, published last week, actually show its administrative expenses in the year to March 31 1989 to have been just under £9m, compared to the £5.7m in the previous nine-month period (equivalent to an annualised £7.7m) – although it recorded a surplus for the period of £334,000, compared to the deficit of £2.2m in the previous period.

Whatever the merits of the rebels' cause, the proxy votes already at their disposal suggest that they will approach the AGM with considerable power. The attempt by Fimbra last week to gather its own proxy votes or persuade some of the dissidents to change their stance seems unlikely to be able to overturn the rebellion – even though two of the trade associations which it antagonised over the indemnity insurance scheme are now telling their members to support the regulatory body.

With such a head of steam already built up, it may be too late to save Lord Elton's personal position – or the reputation of the City's self-regulatory system.

Letters, Page 15

Thatcher rejects talks with doctors

By Alan Pike, Social Affairs Correspondent

REPRESENTATIVES of Britain's doctors and nurses said yesterday the Prime Minister had refused to meet them to hear their concerns about the Government's proposed health reforms.

Sir Anthony Grabham, chairman of the Joint Consultants Committee, which represents senior hospital doctors, said the medical Royal colleges and the British Medical Association had been "rebuffed" in an approach to Mrs Margaret Thatcher.

"The people who have been responsible for treating patients for the past 40 years have been denied an opportunity to express their concerns to our Prime Minister. That is of very great significance," he said.

Mrs Thatcher was approached by the medical leaders with a request for a meeting last month. She advised them to continue discussions with Mr Kenneth Clarke, Health Secretary. She was not sure any additional purpose would be served.

The approach to Mrs Thatcher was made public yesterday when all the leading professional organisations in the publicly funded National Health Service held a joint press conference in London to outline their opposition to the Government's recent National Health Service and Community Care Bill.

Sir Anthony said there was a danger that the proposals would force doctors to give patients the cheapest treatment, rather than the best.

● Control Room staff at London Ambulance Service's Waterloo headquarters walked out yesterday in support of crew members who have been suspended without pay for refusing to work normally.

The move was the first time ambulance staff have abandoned their pledge made throughout the 11-week pay dispute to do nothing to affect emergency calls.

The control staff have had to put most of the calls to London police for three weeks since management suspended ambulance crews.

UK NEWS

Salmonella cases from eggs 'still increasing'

By Bridget Bloom, Agriculture Correspondent

DESPITE "draconian" measures introduced to control the incidence of salmonella in laying and breeding hens, cases of food poisoning from salmonella enteriditis associated with eggs is still rising, the Agriculture Committee was told yesterday.

A joint memorandum from the ministries of agriculture and health showed a 9.8 per cent rise in outbreaks of salmonella enteriditis phage type 4, the salmonella which was at the root of last year's controversy over salmonella-in-eggs in the first nine months of this year compared to the same period in 1988.

The controversy last year culminated in the resignation of Ms Edwina Currie as junior health minister over her remarks that "most" of Britain's egg production was contaminated with salmonella.

Of 38 outbreaks of food poisoning this year, 30 were attributed to eggs compared to 23 outbreaks out of a total of 59 last year.

Food poisoning from all types of salmonella rose by 13 per cent while notification of food poisoning of all types rose by 42 per cent.

However, the Committee was told that the rate of increase had slowed in all cases – for example, the 9.8 per cent increase in salmonella enteriditis compared with a 154 per cent rise in the same period in 1988.

Mr Keith Meldrum, the chief veterinary officer, said that while more time was needed for the new measures to be fully effective, he believed they would "control and reduce salmonella across the board" even if it could never be eliminated entirely.

Egg industry representatives, however, told the Committee that the new measures imposed heavy burdens on the industry while not offering adequate compensation.

The measures, introduced since last March, include compulsory testing for salmonella in all laying flocks of more than 25 birds. This will soon be extended to breeding flocks. Mr Michael Ring, of the agriculture ministry, said 980,000 birds so far had been slaughtered under these provisions, involving compensation of just under £800,000.

Mr John Coles, Chairman of the British Industry Egg Council, one of six industry bodies giving evidence, said many poultry farmers could not survive if their flocks were slaughtered. Although there were no precise figures, he thought one or two smaller producers were leaving the industry each week. Sales and consumption had recovered from the disastrous levels of last winter, but were still about 11 per cent down.

Although Britain was a net exporter of eggs, the industry blamed imported eggs for some of the continuing problems of salmonella, Mr Coles said. Britain's standards were now the highest in the world, but imported eggs did not have to meet the same standards. The eggs could not be distinguished once they were retailed, he said.

Mr King pointed out that a sense of proportion was important, since imports accounted for only some 2 per cent of sales, while Mr Meldrum noted that the European Commission had plans to harmonise egg safety regulations throughout the European Community to the level prevailing in the UK.

Anglo-Irish talks to aim for closer economic ties

By Kieran Cooke in Dublin

BRITISH AND Irish officials will today try to have a normal working meeting of the Anglo-Irish Conference in Dublin, concerned with ways of furthering economic co-operation between the Republic of Ireland and Northern Ireland.

They emphasise that there is likely to be little controversy, although the issue of the Birmingham Six might be raised.

The six are Irishmen who were imprisoned in 1974 in connection with the deaths of 21 people in a pub bombing in Birmingham. Evidence uncovered since the trial has cast doubt on the convictions.

Recently, four people were released as innocent after 15 years in prison in connection with IRA pub bombing in Guildford.

Recent meetings of the conference have tended to be exercises in crisis management.

Officials on both sides say they want to return to the more mundane questions of slowly improving relations both between Dublin and London, and between the Republic and Northern Ireland.

The Irish Government has recently been emphasising the need for more cross-border economic co-operation.

Mr Charles Haughey, the Irish Prime Minister, has indicated his willingness to undertake some as yet undefined cross-border economic initiative during Ireland's presidency of the European Commission, which begins on January 1.

There are few cross-border economic links, although Dublin says it is co-operating with Northern Ireland officials on compiling an application for funds from Brussels for what it describes as "a comprehensive cross-border programme."

Mr Haughey last week invited Northern Ireland's three members of the European Parliament for talks on the Brussels application.

The Rev Ian Paisley, leader of the Democratic Unionist Party, has already made clear his feelings about such talks, saying Dublin has no right to interfere in Northern Ireland's affairs and describing Mr Haughey as "the inveterate enemy of the Ulster people."

In Brief

Reinshagen to site £6m plant in Coventry

Reinshagen (UK), the British offshoot of a West German car wiring manufacturer, is to build a £6m manufacturing plant in Coventry, in the West Midlands, which will employ about 600 people when it opens in 1991.

The move represents a significant expansion of Reinshagen's manufacturing operation in Coventry which began on an experimental basis in May with 150 people. The company is owned by Kabelwerke Reinshagen of West Germany, a subsidiary of Packard Electric of the US, which in turn forms the wiring harness division of General Motors.

Kabelwerke, which has 14,500 employees in continental Europe, is the biggest European manufacturer of automotive wiring harnesses and Packard Electric is the biggest manufacturer of harnesses in the world.

Directors' pay rises

Directors' total cash earnings increased by 11.4 per cent in the year to September and those of managing directors by 12 per cent, according to a survey published by the Institute of Directors and the Reward Group, remuneration specialists.

London logs up speeds

High speeds on the M25 London Orbital Motorway – which opened in October 1986 – have increased average traffic speeds on the capital's main roads by an average of 2.1 mph, the Transport Department said.

Gas leader dies at 86

Sir Kenneth Hutchison, deputy chairman of the Gas Council from 1960 to 1966, who was regarded as one of the gas industry's outstanding leaders, has died at the age of 86.

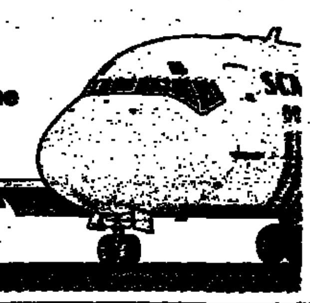
'Open skies' preferred to Prestwick monopoly

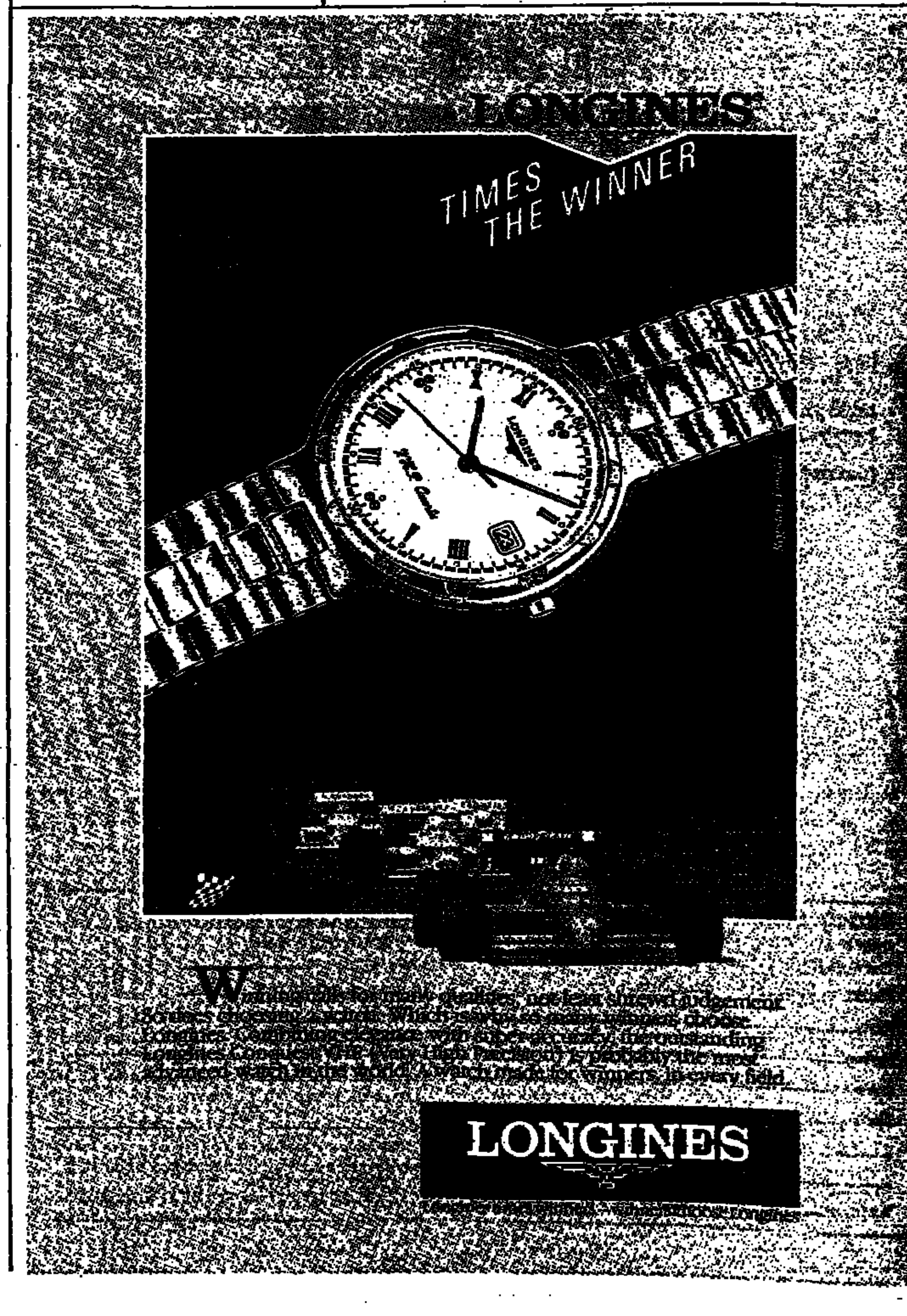
By James Buxton, Scottish Correspondent

THE overwhelming majority of Scottish businesses and air travellers want an open skies policy that would mean the end of Prestwick airport's monopoly on transatlantic flights to Scotland, says a survey published yesterday.

The study, carried out for the Confederation of British Industry in Scotland, the employers' organisation, by the Fraser of Allander Institute, was presented on the last day for submissions to the Government's review of Scottish lowlands airports policy. Its conclusion, that transatlantic flights should be allowed to operate from Glasgow and Edinburgh, was backed by both Glasgow and Edinburgh district councils.

The study of 437 companies with a total of about 250,000 employees showed 91 per cent in favour of developing services from airports other than Prestwick. Some 89 per cent of 3,240 passengers questioned at Scottish airports backed the same policy.





NATIONAL INSTITUTE REVIEW

Currencies plan 'will fail to win backing in EC'

By Peter Norman, Economics Correspondent

THE National Institute challenges the Government's European policy in two important areas.

It argues that the Treasury's notion of competing currencies as an alternative to stages two and three of the Delors committee proposals for economic and monetary union will fail to win support among Britain's partners in the European Community.

It also says Britain should support the proposed European Community Social Charter.

The institute says the Treasury's evolutionary approach to economic and monetary union offers no guarantee that competition between currencies will result in fixed exchange rates.

By rejecting the creation of a common currency, the UK plan may involve more cost and inconvenience for traders.

Instead of moving towards economic and monetary union, the plan published this month by Mr John Major, the Chancellor of the Exchequer, might create a league table of currencies in which the holders of currencies most likely to depreciate would be compensated by higher interest rates. That would simply reinforce the existing pattern of currencies in the European Monetary System.

Competition between countries might even result in competitive interest-rate increases, the institute warns.

The institute says it would have been better for the Government "to address constructively the real political difficulties which monetary union involves."

It says the Government was right to oppose the Delors idea of binding rules set by the Community on the size of budget deficits.

The institute notes that Britain appears to be in a minority of one in opposing the planned EC social charter.

While the social charter envisages conditions of work in the EC moving towards the best practice of the richest member states, Britain's attitude seems to be that British industry will compete most successfully in Europe if it is able to keep its labour costs down by offering less favourable conditions of employment as well as lower pay.

The institute implies that that attitude is pessimistic and misguided. It points out that the recovery of output and employment in Britain in the 1980s has been associated with a rapid increase in wages and non-pay benefits made possible by increased productivity. That is the pattern established in West Germany, France and the Netherlands.

● Hotels in West Germany achieve labour productivity between 1½ times and double that of their British counterparts, largely because German workers are trained better, a study in the review concludes.

The study, the last in a series comparing skill levels and training in a variety of industries, finds that the West German productivity advantage in hotels seems to be about the same as that in manufacturing. The study in a sample of 14 medium-sized hotels in Britain and 24 in West Germany concludes that German hotel workers at all levels are better skilled and able to work more flexibly.

High interest rates 'could push UK economy into a recession'

By Patrick Harverson, Economics Staff

THERE is a significant risk that the high level of interest rates could push the British economy into recession next year, the independent National Institute says in its latest forecast for the UK economy.

The institute advises the Government to loosen the tight reins of monetary policy. It says: "We would certainly recommend that the excessive reliance on high interest rates be abandoned."

The review suggests that a tighter stance on fiscal policy, combined with lower interest rates, would be more effective in restraining demand and reducing inflation without risking a full recession.

The institute took the unusual step yesterday of publishing two forecasts. As well as its main forecast of modest growth in 1990, a second forecast predicts a "short-lived" recession next year, with a fall in output in the first six months, lower fixed investment and lower stock building. This would be followed by a "risk recovery" in 1991.

The institute's pessimistic forecast warns against a further rise in base rates. "The growth of the economy has already slowed down and the pressure of demand is falling. If that tendency were now reinforced by yet higher rates, the outcome could well be a recession, rather than merely a pause in expansion."

In the institute's main forecast, economic growth will slow further, but not stop next year. It predicts that inflation will fall, but stay above 5 per cent, manufacturing output will decline in real terms, unemployment will remain unchanged, and there will be only a modest improvement in the trade balance.

The institute does expect the Government to reduce the cost of borrowing next year, but by only 1 percentage point. Base interest rates now stand at 15 per cent.

Against this background of a slight easing of monetary tightness, the institute forecasts output growth to fall from 2¼ per cent this year to 1½ per cent in 1990. The recovery in oil production after last year's accidents in the North Sea will account for much of the growth in 1990.

A marked contraction in consumer spending, falling fixed investment and substantial de-stocking by industry will lead to non-oil output growth of less than 1 per cent next year, the review says.

A real fall in manufacturing output is forecast as companies cut spending on stocks and investment. However, the institute does not expect this to lead to higher registered unemployment because it predicts that the conditions for claiming benefit will be tightened further in 1990.

The Institute expects the slowdown in output and domestic consumption to lead to a gradual improvement in the trade balance. Export growth will be aided by the expansion in oil production, a weak pound, strong world trade growth and increased opportunities for UK producers to switch from home to overseas markets.

At the same time, imports will slow sharply in response to lower spending, reduced stock building and weaker investment. The institute says the current account deficit will fall to about £18bn in 1990 from £21bn this year.

The Institute looks forward to a drop in retail price inflation to 5.2 per cent in 1990 from 7.2 per cent this year. But it warns that the fall in the exchange rate and continuing high wage settlements will ensure that any improvement in inflation will be slow.

The institute no longer expects the Government to cut taxes next year. It predicts that the public sector debt repayment will rise from £12.5bn this year to £15bn next year.

Notice of Redemption

To the Holders of

Kellogg Company

U.S. $100,000,000

11¼% Notes Due January 15, 1992

NOTICE IS HEREBY GIVEN that, pursuant to the terms and conditions of the Fiscal Agency Agreement dated as of January 15, 1985 between Kellogg Company and Citibank, N.A., Fiscal Agent, under which U.S. $100,000,000 11¼% Notes due January 15, 1992 (the "Notes") were issued, the Kellogg Company has elected to redeem all of the outstanding Notes on January 16, 1990 (the "Redemption Date") at a Redemption Price equal to 100% of their principal amount, plus interest accrued to, but not including, the Redemption Date. The conditions precedent to such redemption have occurred.

On January 16, 1990 the Notes shall become due and payable. The Notes and one day's accrued interest will be paid upon presentation and surrender thereof, together, in the case of bearer Notes, with the unmatured coupons appertaining thereto, failing which there shall be deducted from the Redemption Price an amount equal to the face amount of all such missing coupons. Payments in respect of the Redemption Price and accrued interest on the Notes shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and will be made, subject to any applicable laws or regulations, at (a) with respect to bearer Notes, the main offices of Citibank, N.A. in London (Citibank House), Paris (Citicenter), Amsterdam, Brussels, Frankfurt, the main office of Citicorp Investment Bank (Switzerland) in Zurich and the main office of Citicorp Investment Bank (Luxembourg) S.A. in Luxembourg, and (b) with respect to registered Notes, at the office of Citibank, N.A., 111 Wall Street, Corporate Trust Services, 5th Floor, New York, N.Y. 10043.

In the case of bearer Notes, coupons due on or before January 15, 1990 should be detached, presented and surrendered in the usual manner. Interest payable January 15, 1990 upon registered Notes will be paid in the usual manner. On and after January 16, 1990 interest on all Notes will cease to accrue.

KELLOGG COMPANY

Dated: November 30, 1989

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States may be required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agent has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent when presenting your securities for payment within the United States.

MANAGEMENT: Marketing and Advertising

International advertising networks

Agencies pitch for an integrated future

Having built up, over recent years, a wide range of related disciplines, some of the major US and UK players are now beginning to adopt a more cohesive marketing approach. **Alice Rawsthorn** reports

Throughout the 1980s the international advertising industry has been enveloped in wave after wave of acquisitions and affiliations as the world's advertising agencies have scrambled to expand into other countries and into other areas of marketing.

One by one the large agencies have diversified into new disciplines like sales promotion, direct marketing, design and public relations. The rationale for all this activity is that the same companies which commission advertising campaigns will probably be prepared to pay for direct mail or product design programmes too.

So far the creation of these marketing networks has made little difference to the way that clients are serviced by their agencies. A consumer goods company might work with an ad agency, PR consultancy and design company all owned by Saatchi & Saatchi or Young & Rubicam, but it usually deals with them as separate entities. There will be three different account teams to brief, three sets of research to analyse and three bills to pay.

But times are changing. There is a trend – especially in the US – for companies to adopt a more integrated approach to marketing. At the same time marketing budgets are being diverted away from advertising – which has traditionally claimed the highest proportion of expenditure – towards other disciplines. This means that the traditional role of the agency as a specialist in advertising is fast becoming something of an anachronism.

Most agencies are still structured in the traditional way, but some of the larger US agencies – Foote Cone & Belding, Ogilvy & Mather and Leo Burnett – are now experimenting with new ways of offering an integrated marketing service to their clients. The European agencies are starting to follow suit.

"This question of structure is the biggest issue facing the advertising industry," says Emma Hill, advertising analyst at Wertheim Schroder, the New York stockbrokers. "Somehow the agencies have got to find a way of integrating advertising with other marketing services."

The concept of an advertising agency being involved with other areas of marketing is not new. Japanese agencies, such as Dentsu and Hakuhodo, already operate as general marketing consultancies. Since the early 1970s the large US agencies have been diversifying into different disciplines to offer a "one stop" service to their clients.

Some agencies diversified by acquisition. Young & Rubicam moved into direct marketing by buying Wunderman; sales promotion with Cato Johnson; public relations through Burson-Marsteller; and, earlier this autumn, into design by buying Landor Associates. Advertising is still the bulk of its business, but the new disciplines should account for a third of its income this year.

Other agencies, like Ogilvy, which has diversified away from advertising to become one of the most powerful players in international direct marketing, have concentrated on starting their own businesses from scratch.

The agencies even treated their diversification to a series of increasingly esoteric names. Y&R opted for the "whole egg" philosophy; Grey for "seamless marketing"; Ogilvy for "orchestration"; and J Walter Thompson for "aggregate marketing".

The ambitious UK agencies, which emerged as a force in the international advertising arena in the 1980s, have also diversified into different disciplines. Saatchi, which specialised in advertising until 1983, is now involved in numerous areas of communications.

The WPP Group, which owns Ogilvy and JWT, has emerged as the biggest single force in global marketing with interests in everything from corporate identity to crisis communications. It now derives just over half its revenues from traditional advertising.

This sort of diversification has enabled agencies to broaden the base of their businesses. Saatchi estimates that two thirds of the new business gained by its eponymous network this year has been spread across three or more countries and half of that new business has involved working in at least three different disciplines.

"More and more clients are coming to us not just for advertising," says Jeremy Sinclair, deputy chairman of Saatchi. "Now they say: 'We want this, this and this.'"

There is also lots of scope for the agencies to boost new business by referring accounts from one subsidiary to another. Martin Sorrell, chief executive of WPP, says 17.5 per cent of its new business is now generated by cross-referrals.

But there is generally very little difference in the way the client is serviced. If a company deals with four consultancies in different disciplines – whether they are owned by the same group or not – it still tends to brief four different account directors. There is also a risk that the consultancies could adopt different strategies and that the final work could lack cohesion.

"What really infuriates me is that the marketing groups make lots of noise about all these different subsidiaries, but there is no real benefit for me," says the director of communications of one big US company. "My ideal would be to brief one person who would then map out a strategy for all my marketing and commission the creative work from all the different subsidiaries."

In the past year or so a growing number of agencies have started to explore ways of delivering such a service. The US agencies have taken the lead possibly because of the different structure of the US market, where the new marketing disciplines are developing at a very rapid rate.

Since the mid-1980s the US agencies have experienced a sharp slowdown in the growth of advertising expenditure. This is partly a reflection of the general cost-cutting that has followed all the leveraged bids and buy-outs in US industry.

One of the chief contributors to the slowdown is that companies are channelling an increasing proportion of their marketing budgets into tactical exercises, such as sales promotion and direct mail.

This trend has been exacerbated by the pressure on corporate profits which encourages companies to opt for short-term sales boosts, rather than long-term brand building through advertising. At the same time the fragmentation of consumer markets and decline of the mass media – especially of network television – means that traditional mass-marketing techniques are becoming more expensive and less effective.

The new disciplines, like sales promotion and direct marketing, are growing at a far faster rate than traditional advertising. Media advertising accounted for 43 per cent of US marketing expenditure in 1980 and just 35 per cent by 1987, according to Donnelly Marketing.

The agencies have become increasingly keen to counter the slowdown in their traditional market by benefiting from the growth of other areas. Moreover, the major US advertisers now take disciplines like sales promotion so seriously that they want to ensure they are integrated with the rest of their marketing strategy.

This has prompted the large US agencies to reassess their roles. So far they have adopted a variety of different approaches. Y&R has introduced a system – similar to that favoured by Saatchi – whereby one "lead" executive takes responsibility for an account by liaising with the client and then commissioning work from the various subsidiaries. The executive could be drawn from any of the Y&R disciplines.

"Over the years we have assembled a group of companies with their own management, tradition and *esprit*," says Alex Kroll, chairman of Y&R. "We want those companies to remain independent, but we also recognise that clients are starting to want to work with us in an integrated way."

Ogilvy has moved one step further. It adopted a system of "orchestration" in the mid-1980s, which involves the Ogilvy businesses working closely together on projects; typically they hold weekly meetings to discuss strategy and exchange ideas. In May Ogilvy introduced its first client service director in the US, to act as the single point of contact with clients on multi-disciplinary projects.

FCB has moved further still. For several years it has offered sales promotion and direct mail services from its main US agencies in Chicago, New York, Los Angeles and San Francisco. And it has delivered these disciplines in the traditional way through separate subsidiaries.

Two years ago it set up the Integrated Communications Group in New York, a company structured as a general marketing consultancy. FCB had just taken over Leber Catz & Partners, a New York company involved in several areas of marketing.

Instead of merging these businesses in the conventional way FCB decided to experiment with a new type of company which would work across all the disciplines, including advertising. "We thought there was a large number of clients wanting one resource to deliver all the different disciplines," says Jon Adams, president of ICG.

Two years later, ICG has doubled its billings to $130m. *Half of its work is for FCB's* clients in New York. The FCB agencies in Chicago, LA and San Francisco still operate in the conventional way and the group is now considering how they could be restructured to offer an integrated service.

The integrated system is now being adopted in Europe, especially in the UK, where the advertising market is now displaying similar characteristics – a slowdown in growth and a trend towards direct marketing – to those in the US.

Ogilvy introduced its first client service director at its London agency six weeks ago. The Leo Burnett agency in London has also adopted the system of integrating direct marketing and sales promotion alongside advertising, pioneered by Burnett in Chicago.

Jeff Fergus, chief executive of Burnett in London, says it was convinced that European agencies will have to be much more responsive to new direct marketing techniques – like direct response television advertising – in the future. "Integration is the next step in the changing shape of the advertising agency of the 1990s," he says.

In theory, integration sounds simple. In practice, it can be rather more difficult. One difficulty is that many major advertisers are simply not structured to adopt an integrated approach to marketing.

"The situation varies enormously from client to client," says Philip Geier, chairman of Interpublic, which owns the McCann-Erickson and Lintas agencies. "Some companies understand the logic of integration but there are practical problems like the person responsible for sales promotion may not even report to the marketing department."

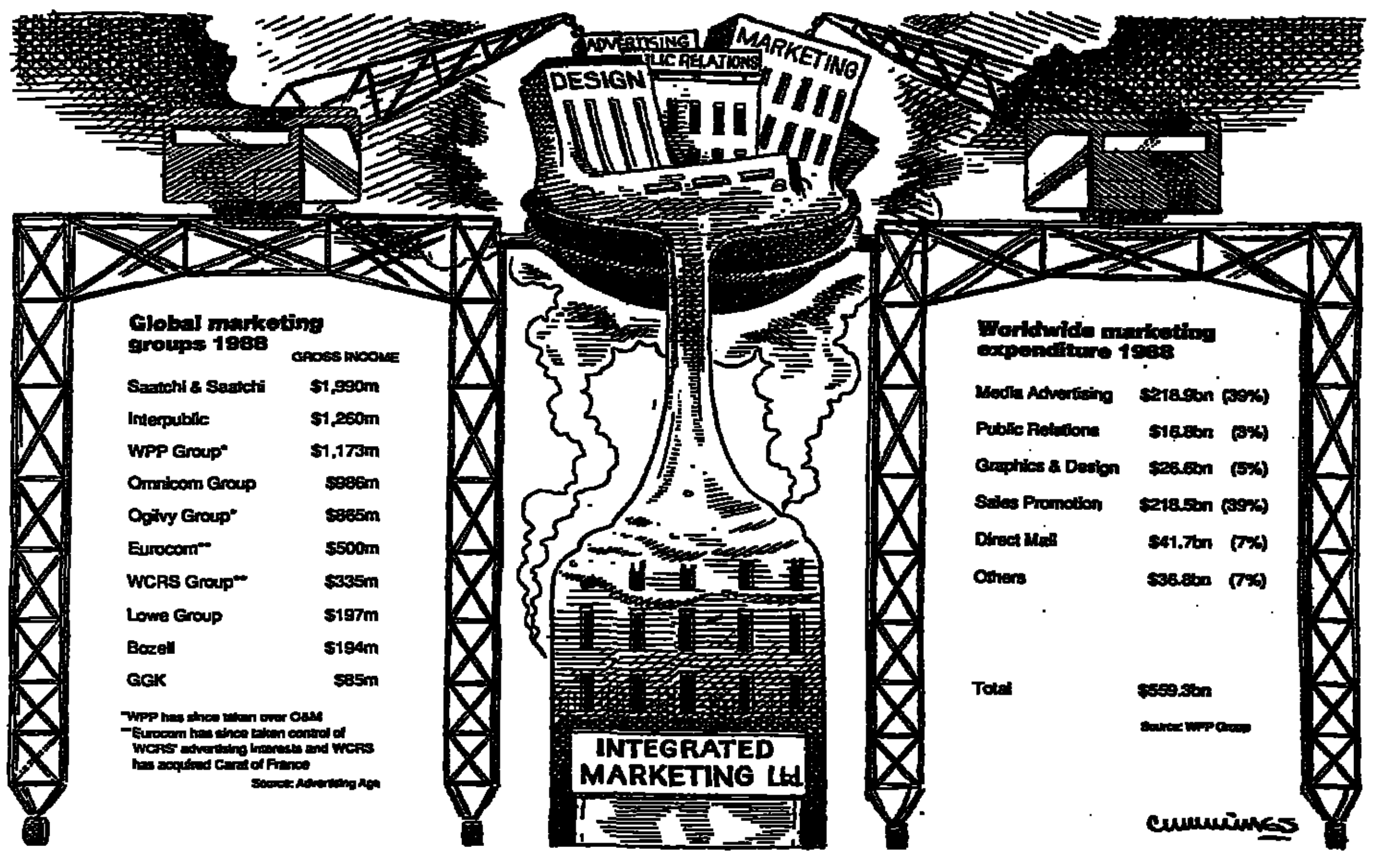
When these practical problems are replicated across several countries, they can become even more difficult to resolve.

Similarly, many agencies do not provide a uniform standard of service from all their subsidiaries. They are also finding it difficult to find suitable candidates for the new generation of "client service directors". "There are very few people who have experience of all the marketing disciplines," says Mike Walsh, chairman of Ogilvy in London.

The integrated approach also has implications for the finances of the marketing groups. Advertising agencies tend to be paid by commission, although there is a trend in the US and the UK towards fees and performance-related payments. Other marketing consultancies work for fees.

So far most of the new integrated consultancies have adopted fees as a standard system of payment. This does at least enable agencies – which have such high fixed costs that accurate budgeting is critical – to plan ahead. But the agencies will have to become much more flexible if they are to respond to a wider range of demands involved in offering an integrated marketing service.

Given that different clients have such different needs, the only certainty is that all agencies will need to be much more flexible in the way they operate.



Global marketing groups 1988

	Gross income
Saatchi & Saatchi	$1,990m
Interpublic	$1,260m
WPP Group*	$1,173m
Omnicom Group	$986m
Ogilvy Group*	$865m
Eurocom**	$500m
WCRS Group**	$335m
Lowe Group	$197m
Bozell	$194m
GGK	$85m

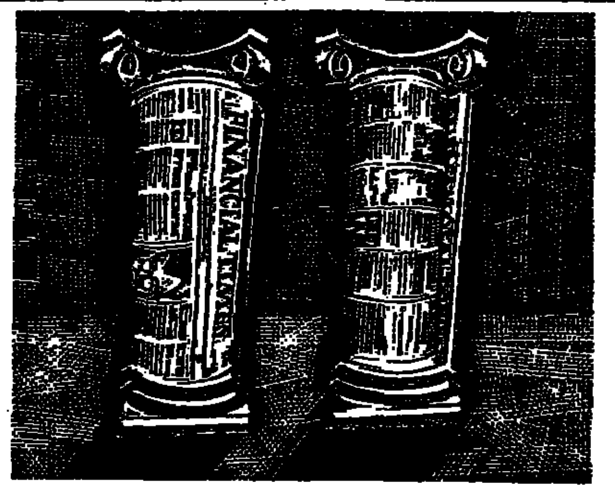
*WPP has since taken over O&M
**Eurocom has since taken control of WCRS' advertising interests and WCRS has acquired Carat of France

Source: Advertising Age

Worldwide marketing expenditure 1988

Media Advertising	$218.9bn (39%)
Public Relations	$16.8bn (3%)
Graphics & Design	$26.6bn (5%)
Sales Promotion	$218.5bn (39%)
Direct Mail	$41.7bn (7%)
Others	$36.8bn (7%)
Total	$559.3bn

Source: WPP Group



TECHNOLOGY

Deborah Hargreaves examines the automated trading system which Liffe will introduce today

The new player arrives for work

Financial futures trading in London will take a small step towards an electronic marketplace today when the London International Financial Futures Exchange's automated trading system goes live at 4.30pm. The launch of Liffe's computer system precedes much-vaunted screen trading initiatives throughout the industry and pitches the exchange into a controversial debate on automation.

"Open outcry", the colourful but esoteric style of trading in the futures markets, has remained unchanged for about 140 years since a handful of Mid-Western farmers met in Chicago to anticipate grain prices. A futures contract is an agreement to buy or sell a specified amount of a commodity at a date in the future. The market's methods are arcane and involve each trader acting as his own auctioneer, bellowing bids and offers to a trading pit bustling with brokers.

Chicago has retained its position at the vanguard of the industry and its trading traditions have been passed to an array of growing markets around the world. But the globalisation of the industry has challenged established exchanges to extend their reach to more international users. One of the ways they do this is by lengthening their trading day, either physically or on screen.

The march toward screen trading has been regarded with suspicion by futures industry diehards who do not believe the cold eye of a computer capable of replacing the sweaty scrum of pit trading. For this reason, most computer systems under discussion will add an extended period on to a trading day of open outcry rather than replace it altogether.

Automated Pit Trading (APT) is Liffe's response to the need for a longer trading time. It attempts to simulate the dynamics of a trading pit as far as possible on a screen. Other systems under development, most notably Globex by the Chicago Mercantile Exchange, rely on straightforward order-matching by a black box.

The CME has been the industry's most vociferous proponent of electronic trading. Its Globex screen system, under development in conjunction with Reuters, is due to start up in the first half of next year. The CME is making a bid to turn Globex into a worldwide system by signing up other exchanges to list their products when their own trading floors are closed.

The beginning of a possible end: "Open outcry" finds a rival in screen trading

Trevor Humphries

Liffe's ambitions are much less grand. The exchange is extending its APT system only to existing members in London. APT is a system that relies on established trading skills in a bid to make an electronic market closely resemble open outcry and provide a trading forum for its institutional brokers as well as its local "independent" traders.

In a system that resembles an institutional video game, each trader is represented on screen by an icon bearing his initials and the moniker of his brokerage house. When a trader is making a bid or offer, his icon will light up in either blue or pink, highlighting the number of contracts he wants to sell or buy.

With the launch of APT today, Liffe will list just one contract, its Euromark futures, for trading after-hours. Euromark futures, which is based on the three-month Euro-deutschemark interest rate, has built up a healthy volume since its inception on Liffe in April and is currently trading some 200,000 lots a month. Once the system has been established, the exchange will phase in the listing of its other futures contracts on APT.

The Sydney Futures Exchange also plans to launch its own computer system today, which will lengthen its trading day by six and a half hours. The SYFE's black box, which will initially list 10-year Australian Government bond futures, will match orders electronically, unlike APT which is attempting to represent pit trading on screen.

The innovative part of Liffe's system is its communications architecture. This allows one screen to talk to others at the same time – critical for a trading system. It has been developed by the exchange's in-house technology staff and provides the system with an extremely rapid response time to bids and offers.

It takes APT 1/10th of a second to digest information that is put into the system; this is then processed and the system responds in another 1/10th of a second. APT responds faster than other order-matching systems such as Globex where the response time will be approximately six seconds. "We had two main criteria in designing this system and that was to give it a fast response time and to make it trader-friendly," explains Philip Bruce, manager of special projects at Liffe.

The design of the APT screen was modified over the course of its development as floor traders acted as guinea pigs and commented on the lay-out. The arrangement makes ample use of colour to highlight trading business so that it is clear at a glance – albeit an educated one – what type of transaction is taking place. The screen can depict two contracts side by side or show trading in separate months for the same product.

Up to 100 icons, or traders, can be crowded into one pit at any time. Even if the screen is full, the system would accept bids and offers from other players. The system is able to process around 100 transactions per second, which is about five times more than the physical moves made on the trading floor in that time.

A screen may be speedy in its response, but the frenetic trading atmosphere of a futures pit is hard to reproduce on screen. In spite of insistence by the exchanges that they will preserve open outcry, new technology has crept up to the very edge of the riotous trading floor and some traders fear it will not be long before it takes over altogether.

Systems at Liffe will soon be totally integrated for receiving and routing orders, clearing and processing as well as keeping a regulatory eye over the market. In Chicago, two big exchanges are developing hand-held terminals for recording trades as they happen – to replace existing trading cards – which will then go through to the exchange's central processing facility.

Liffe intends to run APT initially only in the evenings. By next year it expects to introduce an early morning session. "One of our reasons for developing APT is to give us the flexibility to trade less active contracts on a screen rather than on the floor," says Michael Jenkins, Liffe chief executive.

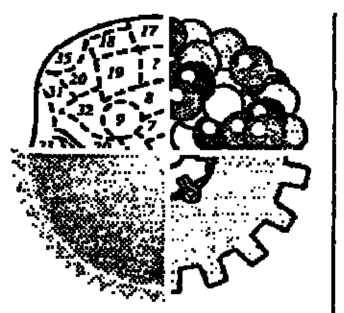
Electronic trading is the biggest single issue to face the futures community today and the industry has long confronted a philosophical split on its merits. However, as its introduction has become imminent, exchanges have joined together to pool resources for the creation of systems that would not be possible alone.

Chicago's two big exchanges are discussing the possible merger of their two electronic trading systems under development. Globex is a straight order-matching system and Aurora, under development at the Chicago Board of Trade, simulates pit trading in a similar way to APT.

It was an ironic day when the CBT unveiled Aurora, only for Liffe to find many similarities between the two systems although there had been no previous contact. However, Aurora is far from ready and has already cost about 10 times that of developing APT.

APT has been created for the modest cost of $2.5m, largely by relying on Liffe's in-house expertise. The system, which is run on Sun Microsystems hardware, is available to members for an initial installation fee of £15,000 and a monthly rental of £900 per terminal. Additional terminals cost $1,000 each. So far Liffe has leased 50 terminals for 41 members who are responsible for more than two thirds of the exchange's business.

Liffe has made little fuss over the launch of APT in comparison to the media blitz that surrounded the development of Globex. However, APT is the only major system yet to get off the ground and its value could extend beyond the local plans the exchange has so far developed for it.



WORTH WATCHING

Edited by Della Bradshaw

The fire goes out before it starts

MANY post-crash fires are caused by electrical sparks from the miles of circuitry in the modern motor car.

To help prevent such fires a Preston company has developed a device, little bigger than a cotton reel, which cuts the car's electrics within a fraction of a second of a crash occurring.

The Fire-ban, from W & J Foster, is fitted between the earth lead of the battery and the car battery itself. It contains an inner reservoir of mercury which is used to complete the circuits in the car's electrical system. On impact, the mercury spills out of the reservoir and the circuit is broken.

Foster has completed extensive tests to ensure that the circuit is only broken on impact with a stationary object rather than on emergency breaking, for example. The device costs £24.95.

Teapot moves in different circles

PROVING that a teapot can be used for more than just providing the British with their afternoon cuppa, the US research organisation Battelle has used the object as an instrument for mapping the movement of air and fluids.

The research could lead to more energy-efficient buildings by analysing air movement, or help geologists to monitor ground water or oil. The research could also help doctors to understand how fluids move round the human body.

The Battelle project involved simulating the movement within a water-filled teapot placed on a heated burner. The data was processed using a computer code developed by Battelle for monitoring fluids in a nuclear reactor cooling system, and the varying temperatures were visualised on the computer screen using three-dimensional graphics.

A video is available from the Association for Computing Machinery.

Beer undergoes the medical test

A BETTER pint of beer is the aim of researchers at the South Australian Institute of Technology, in Adelaide, which has modified a medical test procedure to produce a diagnostic kit for brewers.

The test kit measures the amount of protease enzyme, a substance which is added to beer in minute amounts. The enzyme prevents the proteins in the beer from making the ale cloudy when it is chilled. But add too much and the head on the beer is destroyed.

Developers of the Elisa (enzyme linked immuno sorbent assay) test believe it is quicker than traditional tests, taking about 30 minutes to complete, as well as producing more consistent results.

The test involves mixing droplets of beer with an antibody specific to the protein. A substance which acts as a dye is then added so the brewers can analyse the amount of enzyme present by checking the colour using a spectrophotometer.

Elisa can be used with pasteurised or unpasteurised beers and is undergoing tests with several breweries. It should be on the market early next year.

Computers ring through the data

THE use of telephone wiring for sending data between computers should become widespread in the 1990s following the definition of an international standard for this this type of network.

The specification for using twisted pair telephone wiring for transmitting data is almost complete, with the final stages being thrashed out by equipment manufacturers and international standards organisations.

Although the standard has still to be rubber stamped, and is unlikely to be officially published until next June, manufacturers believe it is already well-enough defined for them to begin selling equipment.

Local area network manufacturer 3Com, of Santa Clara, California, for example, has launched a family of products which conform to this IEEE 10Base-T standard.

3Com believes that companies with between 20 and 100 computer terminals will find telephone cabling both cheaper and more flexible than its specialist computer equivalents.

The standard is for a twisted pair network which will behave in the same way as a traditional cable Ethernet local area network. That means data can be sent at 10 Mbits (about 250,000 words) per second.

Although one telephone cable cannot be used to transmit voice and data simultaneously, the cable can revert from one use to the other by changing the socket at the junction boxes.

Companies will also be able to install one large chunk of telephone wiring in their offices, and use different strands for either computer or telephone traffic.

The mouse's number is up

THE marauding mouse may have finally met its match with an electronic monitoring system from the pest control firm Rentokil.

The Mouse Alert is a tunnel-shaped box, in the centre of which is an infra-red beam. As the inquisitive mouse scrambles in, the beam is broken and a central monitoring unit informed of the animal's whereabouts by a flashing light and audible signal. Up to 128 such boxes can be connected to one central control panel.

However, once the mouse has been located, the pest control officer hurrys along with a trap to detain, and dispose of, the villain.

The company believes the Mouse Alert sensor box will be useful for companies where poison cannot be used – such as food or pharmaceutical companies – or companies with high value goods, where one stray rodent can wreak financial havoc.

Contacts: W & J Foster: UK, 0772 555262. Battelle: London, 493 0184. Association for Computing Machinery: US, 212 867 7440. South Australian Institute of Technology: Australia, 08 349 5988. 3Com: US, 408 562 6400. Rentokil: UK, 0345 833022.

THE COMPUTER MARKETPLACE

BUSINESS LAW

Keeping up with Germany and East Europe

By A.H. Hermann

WHETHER THE recent events in Germany *will lead to a political* reunification, or merely strengthen the special trade relationship which already exists between the FRG and the GDR, West Germany's commanding position in the markets of central and eastern Europe is bound to be further reinforced.

The events of the last week, heralding the return of Czechoslovakia to its European home, open a new aspect of the scene. Freed from the distortions of the era now coming to an end, Czechoslovakia is bound to re-emerge as the country of central Europe which is not only most dependent on a high level of foreign trade, but also most capable of taking part in an intensive exchange of goods and services with the West.

It is dependent on foreign trade because it is a country poor in raw materials but with high aspirations to the comforts of life. It is able to take part in a fruitful exchange of goods with western Europe, because its population is highly skilled and industrious. The return to the place that it had in the European economy before the war is likely to be facilitated by the memories and working practices which have not died with the passing of generations.

If the UK wants to share in the enormous opportunities which a return to a market economy is likely to offer in this part of Europe, the Government, banks and industry will have to make a concerted effort to catch up with their German counterparts' knowledge of the laws, institutions, *markets and the way of doing* business in countries which are not too distant geographically, but miles apart in historical experience.

The special trading relationship existing between the two parts of Germany is based on the legal fiction that the frontier between them is not a "foreign trade frontier." Consequently, goods moving across it are not subject to customs tariffs and are treated as part of the West German domestic trade to which the German foreign trade law does not apply.

Trade relations between East and West Germany are exempt from the foreign trade remit of the EC Commission and are treated by Brussels as domestic trade of a member State. The Federal Constitutional Court has been more circumspect: it held on July 31 1973 that German-German trade is neither foreign trade nor domestic trade.

A special Protocol appended to the *EEC Treaty* – and the change of which would require the agreement of all member States – recognizes this special relationship. East Germany is a "third" country, *outside the Community, for all* member States with the exception of West Germany.

When trading with East Germany they have to apply the external Community quotas, tariffs, refunds and the rest of the EC rigmarole, while trade can cross the Elbe into and out of the Common Market without let and hindrance. The gap in the Community's external customs frontier is so huge that the pulling down of the *Berlin wall will make little difference.*

To protect the rest of the Common Market from the influx of cheap East German goods imported into West Germany and then enjoying the benefit of free circulation throughout the Community, the third paragraph of the Protocol authorizes every member State to "take appropriate measures *to prevent difficulties* which could result for its economy" from the German-German trade.

However, when Belgium tried recently to make use of *this provision and stop imports* of East German pens and other office supplies from West Germany, the European Court stepped in and on September 21 1989, by its judgment in case 12/88, gave the protective clause a restrictive meaning: the member States must not, said the Court, erect an absolute legal or *de facto* barrier to such imports.

If a system of import control is the only way of preventing perturbations of the entire economy of the member State, the refusal of import licenses for goods of East German origin arriving from West Germany must not be discretionary but justified by the circumstances in each particular case. In other words, the Court has transformed an unlimited discretionary protection clause, of the application *of which the Commission* did not have to be even informed, into one which is subject to judicial review, including that of the European Court.

The German-German trade, which *is* financed through a clearing arrangement between the central banks of the two States, amounted in 1988 to a turnover equal to some 4.7bn and ended for the first time *with a small surplus* of East German exports. The relatively small volume of East German goods which trickle through to other parts of the Common Market can be explained by the absence of any VAT refund on such re-exports from West Germany and by various voluntary re-export prohibitions.

The position may, however, change dramatically if customs post are removed after 1992 while "inner-German" trade intensifies as result of the political change now taking place. East Germany may become, and perhaps already is, a gate through which the products of other countries of central and eastern Europe can bypass the Community's external frontier.

The economic effect of this gate, which EC trade law keeps wide open eastwards, must be seen against the background of other advantages the Federal Republic can offer. In addition to the availability of investment and risk capital, technological excellence and geo*graphical proximity, there is* the mutual familiarity with the commercial codes in central Europe. These were all drafted at about the same time, and in spite of numerous amendments in the course of the past 100 years still follow the same basic principles.

Not only law, but also the institutions and the way of doing business are familiar, because West Germans have been constantly looking over the Iron Curtain, and because so many thousands of Germans with intimate knowledge of the communist world have immigrated to West Germany.

Another advantage is the close relationship existing between West Germany's universal banks and the country's industry, which they partly *control. In contrast* with the detached attitude of London clearing banks which are primarily moneylenders and operators on the world's money markets, German banks are used to *looking after the long* term interests of the enterprises forming their industrial empires. Thus Deutsche Bank, for example, has for many years maintained an office in Moscow and was assiduously preparing the ground for the *opportunities* which are now opening.

The lesson from this is obvious: the UK can reduce the extent to which it lags behind West Germany in trade with countries which are moving from a command to a free market economy, and are about to receive a substantial help from the West, only by making a special effort.

When the dust has settled and quick returns can be obtained, it will be too late to start. To provide for the medium and long term trade expansion in central end eastern Europe, the UK would have to establish trading outposts in that area now.

These could be a cooperative venture of Government, banks and industry, something like the war-time United Kingdom Commercial Corporation. It should help British enterprises to jump the hurdles now; and accumulate experience, contacts and good will for a better future.

Dr Hermann is the D J Freeman & Co Senior Research Fellow in International Trade Law at Queen Mary and Westfield College in the University of London

ARTS

Peter Postlethwaite and Fiona Shaw

The Good Person of Sichuan

OLIVIER THEATRE

The homeless and underprivileged who inhabit "Cardboard city" just near the National Theatre on the South Bank have moved onto the Olivier stage in this wonderful revival by Deborah Warner, making her NT debut, of Brecht's great poetic parable of schizophrenia, true love, and ambiguous moral identity.

Sue Blane's Sichuan is made of Denys Lasdun's stained concrete, shored up with great rotting beams and slung across with a steel girder. Frozen bicycles hang by the wall and Bill Paterson's ingratiating water-seller is put out of business by pelting rain. Wisely cutting the epilogue, which suggests Marxist revolution as an answer to human frailties, Miss Warner's fresh, unhindered view of the play is as a poignant, resonant hymn to the underclass of contemporary Western Europe.

I would hate to suggest that the evening is therefore dull and morbid. It is, on the contrary, entirely uplifting, due in part to the bright, witty and slightly liberty-taking translation of young poet Michael Hofmann, but in chief to the blazing intensity of its two major performances, Fiona Shaw as the prostitute Shen Te and her doppelganger cousin in white half mask and red tie, and Pete Postlethwaite as the unemployed mail pilot, Yang Sun, whom she tries to rescue.

Sichuan is visited by three gods in brown macs and bowler hats who, as a result of complaints received in heaven, have descended on a fact finding mission to an impoverished province.

They are looking for piety. Doors are slammed in their faces until Shen Te takes them in. They reward her with money, and she starts a tobacco shop. In order to be nasty enough to be successful, she adopts the disguise of Shui Ta who kicks down the door and inaugurates a drugs racket.

This latter innovation, based on the "Santa Monica" version found among Brecht's paper, ties in the images of poverty to chronic opium dependency, so that Miss Warner can transform a snippet of an exterior scene to a visit to the lower depths: the stage drum rises and down we go. And when the pilot returns after the deal has collapsed that would have bought him a job, he comes to Shui Ta for opium.

The scene of unprecedented tenderness in Brecht, where the pregnant Shen Te welcomes her unborn warrior and takes him on a mimed nature tour, is brought up sharply against the sight of a real little Chinese boy rummaging in dustbins.

The production is continually renewing for us these images of street urchins, dossers, scavengers and retarded whores in the park. The water seller rides among them in search of a good person and a sale, while the music of Dominic Muldowney lays across the songs a cloudy saxophone wail of despair and disillusion.

At the same time, the playing is as taut as a drum. The love scene in the park is beautifully done, Postlethwaite moving from suicidal blankness to emotional warmth, Shaw relaxing into a reviving friendship.

Superficial Brechtianism is out, truthful playing, as Brecht always demanded, in. A new element of misunderstanding creeps into the central relationship, and Shaw plays the bitterness and anger of Shen Te at her lover's behaviour through gritted teeth and, you feel, gritted mask. Her American movie accent tightens round the softer lilting voice of Shen Te to display another aspect of her personality.

A most notable cast includes Oscar Quitak as a smooth barber, Janet Henfrey as a rival merchant, Susan Engel as a spying widow. The gods come up through a trap with silver haloes, descend like angels in triple harness, flapping great white wings. They see a world of misery, meanness and rubbish everywhere. And no hope. The good person must struggle on, but the water seller knows the importance of her effort. A great play, a great production.

Michael Coveney

CINEMA

When kooks meet spooks

WHEN HARRY MET SALLY
Rob Reiner

GHOSTBUSTERS 2
Ivan Reitman

VENUS PETER
Ian Sellar

THE HIDER IN THE HOUSE
Matthew Patrick

DEEPSTAR SIX
Sean Cunningham

Ah, the "brainwaves" that come to us in the night. Alfred Hitchcock enjoyed telling the story of the director who woke up at three one morning with an inspired idea for a film, scribbled it down on a pad and then went back to sleep. The next morning he eagerly looked at the pad. It said "Boy meets girl."

That sums up *When Harry Met Sally*. Director Rob Reiner (*The Sure Thing, Stand By Me*) and writer Nora Ephron (*Heartburn*) have had an inspired non-idea for a movie. A boy and girl meet, make friends and for ten years decide not to spoil their relationship with sex. At the end of ten years – guess what – they do. And it doesn't.

The amazing thing is that this quaint three-in-the-morning idea has made $90m at the American box office. So it must make up in charm, you surmise, for what it lacks in substance? Exactly so. "Charm" is shovelled in by the truckful. It is Hollywood's answer to manure. If your pupils have not grown rose-shaped by final reel, your eyes not misted up and your heart not started to go pit-a-pat, you must be a hardened sceptic like this writer. For me, the sound of invisible horticulturalists haunted the movie: snipping off spontaneous growths, twining the potentially abundant wit on trailers of winsomeness.

Billy Crystal and Meg Ryan are our would-be platonic lovebirds. They meet as tousled college teenagers in 1977. (Try to be polite about the wig the film has given Crystal for these scenes.) Then they keep intersecting in 1980s New York. Here their speciality is kooky exchanges in public places. These are shamelessly contrived but sometimes very funny; not least when Ryan, mocking Crystal's credulous braggings about his ability to satisfy women, enacts a loud, long fake orgasm in mid-restaurant. A lady diner looks on stupefied and then tells an approaching waitress, "I'll have what she had."

But whenever the fun stops, the sentimentality re-starts. So does the predictability. When Sally's best friend (Carrie Fisher) and Harry's best friend (Bruno Kirby) are brought along to a dinner *à quatre*, to be romantically matched with Harry and Sally respectively, does any filmgoer doubt that they will match and mate with each other instead?

And what audience could ever believe that after 90 minutes of "No sex, please, we're platonic," the tears and roses and wedding rice will not engulf the screen. After all, this is Hollywood. Pleasure denial is something you only get further East, from Ingmar Bergman or Woody Allen.

★

Ghostbusters 2, like *When Harry Met Sally*, is a three-in-the-morning idea that has cleaned up at the box office. (Where did I put that pad with all my last night's brainwaves?) Bill Murray, Dan Aykroyd and company once more wage war on ghostly forces, waving their paranormal vacuum-cleaners at anything that goes "Bump" in the day or night.

That noise is probably the sound of their wallets falling to the floor, grown too heavy for their trouser pockets. This long, witless, overproduced comedy has grossed $110m to date. It runs out of comic ideas after half an hour and runs into a giant wall of Special FX and hand-me-down Sci-Fi. The spooks are recycled versions of the ones from *Ghostbusters 1*, and the pink slime terrorising New York surely escaped from the recent remake of *The Blob*?

The fact that Bill Murray is God's gift to sly comedy is established in the opening scenes. ("I'd like to run some gynaecological tests on her" Aykroyd says of beautiful heroine Sigourney Weaver; "Who wouldn't?" replies Murray.) But as the plot thickens, even Murray disappears into it without trace and so does hope of further wit, wisdom or comic invention. Not that such shortages seem to make any difference to today's knockabout-happy, effects-hungry audiences. *Ghostbusters 3* is as inevitable as Christmas.

★

In a week that sees Terence Davies's *Distant Voices, Still Lives* winning two Critics Circle awards for Best Film and Best Director – there is justice after all – Ian Sellar's *Venus Peter* limps well-meaningly into London in its wake. Here is another British movie about growing up, as surely anchored in the postwar years as *Distant Voices* or John Boorman's *Hope And Glory*. Unfortunately it has the magic of neither.

Meg Ryan and Billy Crystal in "When Harry Met Sally"

Where Boorman deftly mythologised "everyday" experience by presenting a child's-eye-view Blitz as Arthurian romance, and where Davies charged his stylised tableaux with an electric inner life, Sellar presents the gospel according to Mr Plod.

We plod through the camera-shy inexpressiveness of Gordon Strachan's boy hero, dreaming of the sea and his missing Dad in 1940s Orkney. We plod through neatly composed, lifeless scenes with the boy hero's family (Ray McAnally, David Hayman). And we plod through the cracker-barrel philosophisings of his schoolteacher Sinead Cusack ("You must not just see what you see, you must always see more").

And just occasionally we have a fit of astonishment when the movie, based on a novel by Christopher Rush, dares to exhibit some wit or imagination. Cherish the moment when the poetry-hungry boy, seeing the shopkeeper wrap the half-dozen eggs he has ordered in pages from an old verse anthology, says "Better make it a dozen."

Cherish the moment because there are few others. An air of rent-a-cliché Celtic nostalgia pervades the motifs used to characterise the little fishing village. Merry music on fife or fiddle; the obligatory scene of the mystic sea-beast (a whale) washed up on shore; the semi-cracked old Gran who keeps intoning "None but the brave . . . deserves the fair." This is a place out of time, out of history and clean out of credibility; *Brigadoon* masquerading as a British *bildungsroman*.

★

The Hollywood silly season contributes the week's remaining films. *The Hider In The House* is a dazzlingly implausible thriller. Imagine that the handsome white mansion you and your family have bought in deepest Yuppie-urbia has a live-in intruder. He is a psychopath (Gary Busey). He has built a secret living-space in the attic and he stalks around the house and grounds by day and night.

Clearly no Neighbourhood Watch scheme is in operation here. And when Mr Busey finally decides to make a play for the wife (Mimi Rogers), nought but mayhem can result. Oscar the goldfish is murdered; Rita the best friend is garroted; and screaming Miss Rogers starts to sound, as well as to look, like Barbara Stanwyck. A farrago: written by Lem Dobs and directed by Matthew Patrick.

Deepstar Six, directed by *Friday the 13th*'s Sean Cunningham, is mildly worse. The mixed-sex crew of an underwater exploration station have a bad time with prehistoric monsters and matching dialogue. Nothing becomes the cast of this film more than their leaving of it. Punctured, drowned, electrified, bisected or blown up, they give an entirely new meaning to the phrase "occupational hazard." Wait for the video: or, alternatively, don't.

Nigel Andrews

Northern Ballet Theatre

PALACE THEATRE, MANCHESTER

The notion that ballet is the most trite, reactionary and predictable of the arts received a splendid boost from the three works of Northern Ballet Theatre's new programme. Each ballet sets up obvious expectations and fulfils them. Each, in fact, is so obliging as to repeat most of its main choreographic devices at least once: no point in over-estimating the audience's quickness of perception. Accessibility is all. Warm applause all round.

First, the Offenbach *Belle-époque* ballet. This is *Liaison Amoureuses*, music arranged by Carl Davis, choreography by Ronald Hynd. Dramatis personae: A Gentleman, His Wife, Her Lover, His Fiancée, A Lone Gentleman, Four Ladies, Four Gentlemen, Head Waiter, Waiters. To the extent that this work is distinguishable from such other Hynd ballets as *The Sanguine Fan* and *Rosalinda*, it is an adept pastiche of Leonide Massine's *Gaîté Parisienne*. (Offenbach; dancing waiters; and, as in American Ballet Theatre's 1988 *Gaîté* staging, the Eiffel Tower illuminated at night smack in the centre of the backdrop.) "Dites-lui," a hummable overture, is reprised for the climactic pas de deux of adultery triumphant. Paris: city of the waltz, galop, intrigue, waiters, and, according to Hynd, a tendency to rush strenuously through important bits.

Next, the Wilfred Owen ballet. This is Michael Pink's *Strange Meeting*. (The last Pink ballet I saw, in 1980, was *1914*, his *Testament of Youth* work for London Festival Ballet. That seems *déjà vu* then.) You read three Owen poems in the programme beforehand. Commissioned music by Philip Feeney. Soldiers, trenches, barbed-wire. Death, fear, spasms, charges, gunfire, corpses, compassion, gloom. Beastly thing, war. Among the movements you see several times is the last-throes pose. In this, the man on the base of his neck, raises his legs, bent together, in the air – as with Nijinsky's Golden Slave in *Schéhérazade*, or like the Crucifixion upended. At the end, a doorway of golden light opens at the back, and the chaps, who have all died a fearful lot, process through it into who knows where. Shades of another *Testament of Youth* ballet, Kenneth MacMillan's *Gloria* and, of course! C.S. Lewis's *The Last Battle*.

Finally, the Viennese riding school ballet. This is Gillian Lynne's *Lippizaner*, to another Carl Davis score. The chaps here are jockeys and the gals are the horses. With pony-tails; much tossing of. Much printing of proud pointes. Giddy-up. Neigh. *The Taming of the Horse*. It is not clear if Lynne is trying to illumine either the riders' or the horses' point of view. Or even her own. *Black Beauty*, a more humane and fine work of art also gives a subtler, more complex view of beasts of both sexes and both species.

Trinidad Sevillano and Patrick Armand – stars recently departed from English National Ballet – are the Young Girl and Young Man, mount and rider. Sevillano looks as affecting and talented as circumstances will permit. The nervous briskness of Lynne's choreography for men makes Armand look, alas, shorter-legged than he is. Christopher Gable, NBT's artistic director, is the half-ingratiating, half-disciplinarian Chef d'Equipage.

I haven't seen Northern Ballet Theatre for several years. The dancers all show more address, more confidence. But this was not a programme to lure me back to find out more about them. The worst thing about it is that these ballets aren't really serious about Offenbach and the *belle époque* or Owen and the Great War, or the Spanish Riding School and the sexism implicit in ballet. Who wants seriousness? Isn't ballet just meant to be an evening of easy viewing?

No, I'm wrong. The worst thing is that all three are hits.

Alastair Macaulay

Sunday Express Book award

Rose Tremain's novel of life in the England of Charles II, Restoration (Hamish Hamilton, £12.95), which was short-listed for this year's Booker Prize, has won the Sunday Express Book of the Year Award, worth £20,000.

Chamber Orchestra of Europe

BARBICAN HALL

On Tuesday, the excellent Chamber Orchestra of Europe inaugurated a welcome series (sponsored by The BOC Group): twice yearly for the next three years, they are to do short, intensive seasons at the Barbican. This time they were conducted by Sándor Végh in an all-Mozart programme – decidedly over-generous at 2¾ hours with two intervals. For those who stayed the course, the rewards were mostly in the last two-thirds.

At the outset, Végh's amiable reading of the *Così fan tutte* Overture was less speedy than is fashionable nowadays, but failed to capitalise on that with extra crispness or point, especially not from the upper strings. Nor did they do much to enhance András Schiff's temperate, clean-fingered account of the Piano Concerto in C, K.467; it was all highly competent (granted a loose rhythmic match between soloist and orchestra), but too short of any vital spark to prevent many passages – especially in a tame opening Allegro – from emerging like dutiful exercises.

It took the 39th Symphony to remind us why we were so glad to have the orchestra here. Suddenly they sounded thoroughly rehearsed, alert, imaginatively involved. There may have been wittier performances of the finale, but from the start anybody's flagging attention would have been revived and braced. Nothing was routinely played through; there was much intent dialogue, fresh illumination of forgotten corners of the score, and some strikingly beautiful effects of orchestral balance – Vegh ACT'e' traded upon the strengths of his modest-scale ensemble for searching experiments, even in the Minuet.

The great B-flat Serenade "for thirteen winds," K.361, was no less happy, without a conductor but with a proper pair of cool basset-horns, and a fluent double-bass rather than a contrabassoon at the bottom of the score. Confident tempi; gorgeously rich sonorities, generated from the individual quartet-bands (single reeds, double reeds, horns), never by homogenised honking; unabashed relish for Mozart's splendid tunes, and his knowingly brusque contrasts of timbre and diction *à la* Poulenc. More of us would have enjoyed it at least as much about an hour earlier.

David Murray

New World Quartet

WIGMORE HALL

Elliott Carter's Second String Quartet is now 30 years old, but it remains only an occasional visitor to recital programmes, and is hardly ever given with such passion and command as it was by the New World Quartet on Monday. With a coffee concert last Sunday and this programme the group was making its British debut; it was founded in 1977 and was appointed quartet-in-residence at Harvard University in 1984. On the basis of this initial encounter the New World is firmly within the tradition of the best American groups, its ensemble immaculate, its range of tone rich and well-balanced.

Like its forerunners, such as the LaSalle and the Juilliard, it obviously makes a point of mixing the classical repertory with contemporary works. All that was best about the New World's Beethoven (Op.18 no.3) – the sensuous shaping of phrases in the Andante and passionate channelling of energy in the finale – and the intelligent refinement it brought to Debussy's Quartet, were carried over to the Carter, so that operatic-like character of its instrument, the meshing of tempi and the grading of one movement into the next were all made to contribute to a seamless span.

The tradition of Carter quartet playing has previously havered between the poles of pinpoint accuracy coupled with malnourished tone, and a wilder, warmer dialectic in which the details of the metrical planning are allowed to go begging. The New World triumphantly demonstrated that the virtues of the two approaches are not at all incompatible; when they return to this country, as they must, they should bring more contemporary works, and more Carter if at all possible.

Andrew Clements

ARTS GUIDE

November 24-30

EXHIBITIONS

London

The Barbican. A Golden Age – Art and Society in Hugary 1896-1914: in the light of the current ferment in Eastern Europe, with Hungary very much in the van, it is salutary to be reminded just how active a participant she was in the European cultural commonwealth.

National Portrait Gallery. Tom Phillips – The Portrait Works: a thorough, self-explanatory, painstaking survey of the work of our most painstaking artist, always interesting and sometimes lively. Camera Portraits from the Collection 1839-1989.

Paris

Musée des Arts Decoratifs. Je suis le Cahier - Picasso's sketchbooks. After two years of meandering the world over, the exhibition ends, aptly, in Paris. The 40 sketchbooks covering a period of 64 years follow closely Picasso's development. There are cubist flat planes decomposing reality next to the fulness of neo-classical figures, there is the almost sugary rendering of the mother and child theme next to the cruelly distorted female faces, there are all the facets of Picasso's inventive genius.107, Rue de Rivoli (42603214), closed Tue. Ends Dec 31.

Brussels

Europalia Japan 89: Musées Royaux d'Art et d'Histoire. Nambam Art explores the Portuguese influence on Japanese painting and the Splendour of No Theatre shows props and costumes from the Rokuro Umewaka Collection. Closed Mon. Ends Dec 17.

Antwerp

Museum of Modern Art (Muhka) 32 Leuvenstraat. New tools - New Images: art and technology in Japan today with installations by Tatsuo Miyajima, Tsuneo Nakai. Closed Monday, ends Dec 8.

Madrid

Fundacion Juan March. Retrospective of Edward Hopper opens the autumn season at the foundation. 61 works by the New York realist covering a period of 56 years. Until Jan 4.

Barcelona

Caixa de Barcelona. Raoul Dufy. Works by the French fauvist,well known for his lively use of colour and interest in variedforms of art, are on show in Spain for the first time. The exhibit includes paintings, watercolours, drawings, ceramicsand fabric design, belonging to private collections and museums. Ends 15 Dec.

Hanover

Sprengel Museum, Kurt-Schwitters-Platz. Der blaue Reiter (The Blue Horse). this museum is displaying around 61 pieces from its own collections as well as some additional paintings on loan from East Germany and by other artists who belonged to the same Munich-based group. Works by Wassily Kandinsky, Franz Marc, August Macke, Alexej von Jawlensky, Gabriele Münter and Marianne von Werfekin can be viewed until Feb 11.

Cologne

Museum Ludwig, Bischofsgartenstrasse 1. The most comprehensiveretrospective on Andy Warhol, who died in 1987, with around 160pieces from New York. They can be seen only in Cologne until Feb 11. The retrospective includes works from the 1940s and 1950s as well as his famous portraits of Elvis Presley, Marilyn Monroe, Warren Beatty, and paintings based on advertisements.

Vienna

Museum for Applied Arts is hosting a large exhibition devoted to the works of Carlo Scarpa, the Italian artist and architect. The theme is focusing on "The Other City". Until Jan 15.

Rome

Spanish Academy. Salvador Dali: Sculptor and Painter.Supreme genius, or merely "Avidadollars", as his unkind Catalannickname implies? This exhibition convinces one that genius hecertainly was but that his inventive and sophisticated talent became irretrievably warped from the 1970s on, when he became cruel and tiresome in his desire to shock. The contrast is particularly apparent if one compares the potent and lyrical series of coloured lithographs which Dali produced in 1957 (his first effort in this medium) to illustrate an edition of Don Chisiotte, with those produced 15 or 20 years later, illustrating Boccaccio's Decamerone, or The Alchemy of the Philosophers, published in Paris in 1976. Also on show are many of Dali's best known sculptures from the 1930s: Venus of Milo with Drawers, the scarlet sofa in the shape of MaeWest's lips, and Buste de Femme retrospectif, based on a tailor's dummy, to which Dali has added corn-cobs as a necklace and a hat formed from a baguette loaf and a reproduction of an inkwell by Millet. Ends Dec 3.

New York

Metropolitan Museum. A decade of fabulous shows borrowed from around the world culminates in the present exhibit of the major works of Velazquez, much of which is borrowed from the Prado in Madrid. Ends Jan 7.

Washington

National Gallery. Almost three dozen paintings of the early 20th century German movements, Bauhaus, Neue Sachlichkeit and Blaue Reiter, lent by the Thyssen-Bornemisza collection, make a telling commentary on a part of the world again at the centre of attention internationally. Ends Jan 14.

Tokyo

Idemitsu Museum. Flowers of Edo. Paintings and prints of flowers from the Edo Period represent a new flowering in Japanese art, influenced both by new trends in the decorative arts of China and by the botanical illustrations of Europe. Closed Mondays.

SALEROOM

Strong, but more sensible

This is London's week to bask in the glory of major sales of Impressionist and Modern pictures. The results of the key evening sales suggest that the market is still strong, but more sensible. Few lots far exceeded estimates, but the unsold percentages were encouragingly low, around 5 per cent at Christie's on Monday and 10 per cent at Sotheby's a day later.

After its unsettling experience in New York two weeks ago Christie's was re-assured on Monday when it achieved a record total for a European auction of £76.5m, with particularly good records of £11m for a Cézanne still life of apples, and £9.35m for a Lèger. There were also new highs for Magritte and Caillebotte.

Sotheby's sale (total £66.9m) was solid rather than exceptional, with the only significant record being the £5.06m paid for a Modigliani portrait of a girl in a black dress. It was bought by the Fujii Gallery of Tokyo.

Japanese buying was paramount. Yasumichi Morishita the Japanese financier, whose Aska International bought 6.4 per cent of Christie's in September, was a major buyer. He acquired six major pictures at Christie's for £14m (including Picasso's "La maternité" for a modest £7.15m) and eight at Sotheby's, headed by a Gauguin landscape, "Petit Breton àl'Oie" for £4.4m.

Although vital to the success of the auctions, the extent of Japanese buying can be over estimated. At Christie's 30 per cent of the 75 lots will end up in Japan (as against 44.7 per cent at its summer sale) but against this 43 per cent are heading for the continent, and a mere 10 per cent to the US. It is the same story at Sotheby's, with 67 per cent of the lots going to Europe as against 25 per cent to Japan and only 8 per cent to the US.

Indeed the Nermad Brothers, who buy for Swiss investment interests, were the real saviours at Sotheby's, acquiring 17 of the 78 lots, topped by the £3.19m for a Monet river scene.

Sotheby's sold a Utrillo for £550,000 yesterday, equalling a record set by Christie's on Monday. But the real star was Picasso. His oils may be out of favour but a set of 15 etchings "La Suite des Saltimbanques" sold for £605,000 at Christie's and a watercolour "Minoataure" made £627,000 at Sotheby's, as against a top estimate of £80,000.

Antony Thorncroft

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700
Thursday November 30 1989

Summitry in Malta

NO SUPERPOWER summit in recent years has taken place at a more propitious time for the West than this weekend's shipboard meeting in Malta between President George Bush and President Mikhail Gorbachev. The crumbling of the communist systems in the Soviet Union's east European satellites has variously been ascribed to the staunchness of Nato, the success of the European Community, and the attractions of democracy and the consumer society. No doubt all these factors played an important part. But the whole process was set in train by Mr Gorbachev's perestroika and glasnost policies and made possible by his non-intervention.

If the West therefore has a debt to Mr Gorbachev, it also has a clear interest in seeing his policies succeed. In spite of all the political and economic difficulties that Mr Gorbachev faces on the domestic front, it is difficult to imagine any other Soviet leader pursuing policies which are so much in line with western thinking. In return for his intended declaration of support for Mr Gorbachev's policies, however, Mr Bush should expect a firm undertaking that the Soviet Union will maintain its present hands-off attitude to the developments in eastern Europe. Indeed, the most constructive stand the two leaders could take would be to issue a joint statement underwriting the freedom of all nations and peoples to choose their own political systems and governments without outside interference.

Breaking shackles

Nothing would be more inappropriate at a time when one half of Europe is trying to break out of the shackles imposed on it by successive post-war rulers of the Soviet Union than that the superpowers should again attempt to decide Europe's fate in the absence of the directly interested parties. That must be true even for the particularly sensitive case of Germany, where the prospect, however distant, of reunification is again threatening to inflame passions.

Neither Mr Gorbachev nor Mr Bush, nor indeed the leaders of other countries such as Britain and Poland, may relish the idea of German reunification and all the related problems that would provoke. But the German people must be allowed to decide their own destiny. All that Mr Bush and Mr Gorbachev can do is to remind the Governments of the two German states that their decision has profound implications for both Nato and the Warsaw Pact and that the four Second World War allies – the US, the Soviet Union, Britain and France – still have residual responsibilities in Germany, particularly for Berlin.

Central issue

The Malta meeting, as has been stressed repeatedly by both sides, will be a relatively informal occasion, which is not expected to lead to any detailed agreements, least of all in the field of arms control. That will be the subject of a full US-Soviet summit in the spring or early summer next year. But in spite of Mr Bush's strenuous attempts to scotch "euphoric expectations" of an arms control deal, the two leaders can hardly fail to discuss an issue that is so central to both their bilateral and East-West relations as a whole.

There is no reason to doubt US assurances that no decision will be taken on US troop reductions in Europe without full consultation of Washington's allies. But the defence spending cuts foreshadowed by the Administration are a good indication of the way the wind is blowing. The promise to consult the allies does not alter the likelihood that the US and the Soviet Union are now thinking in terms of even lower force levels than originally foreseen. What is important, as the Nato Defence Ministers' statement issued in Brussels yesterday emphasises, is that any reductions of the alliance's forces should be made only in the context of an East-West conventional forces agreement and not unilaterally. Even at a time of developing détente the West must maintain its bargaining position.

Trouble at Fawlty Towers

HOLIDAYMAKERS returning to the UK often claim that hotels in countries such as West Germany, Austria and Switzerland are better run than comparable establishments in Britain. Lack of research usually forces economists to shrug their shoulders in the face of such claims. No longer: in the latest in a long and rewarding series of comparative industrial studies, Professor Sig Prais and colleagues at the National Institute of Economic and Social Research have conducted a detailed evaluation of hotel productivity in Britain and West Germany. Casual impressions are far from misleading. In a matched sample of average quality hotels, labour requirements were found to be about 50 per cent higher in London hotels than in German hotels, and about twice as high in hotels in large English provincial towns as in West Germany.

These are very substantial differences in productivity. According to the institute, they help explain why the cost of staying in hotels, relative to the general cost of living, is about a third lower in West Germany than in Britain. A small portion of the productivity gap undoubtedly reflects higher physical investment and better choice of capital equipment in West Germany. For example, special-purpose chambermaid trolleys, rarely seen in the UK, were used in nearly all the German hotels visited. But differences in the skills and qualifications of the workforce – differences in what economists call "human capital" – proved a far more potent source of lower British productivity.

Vocational training

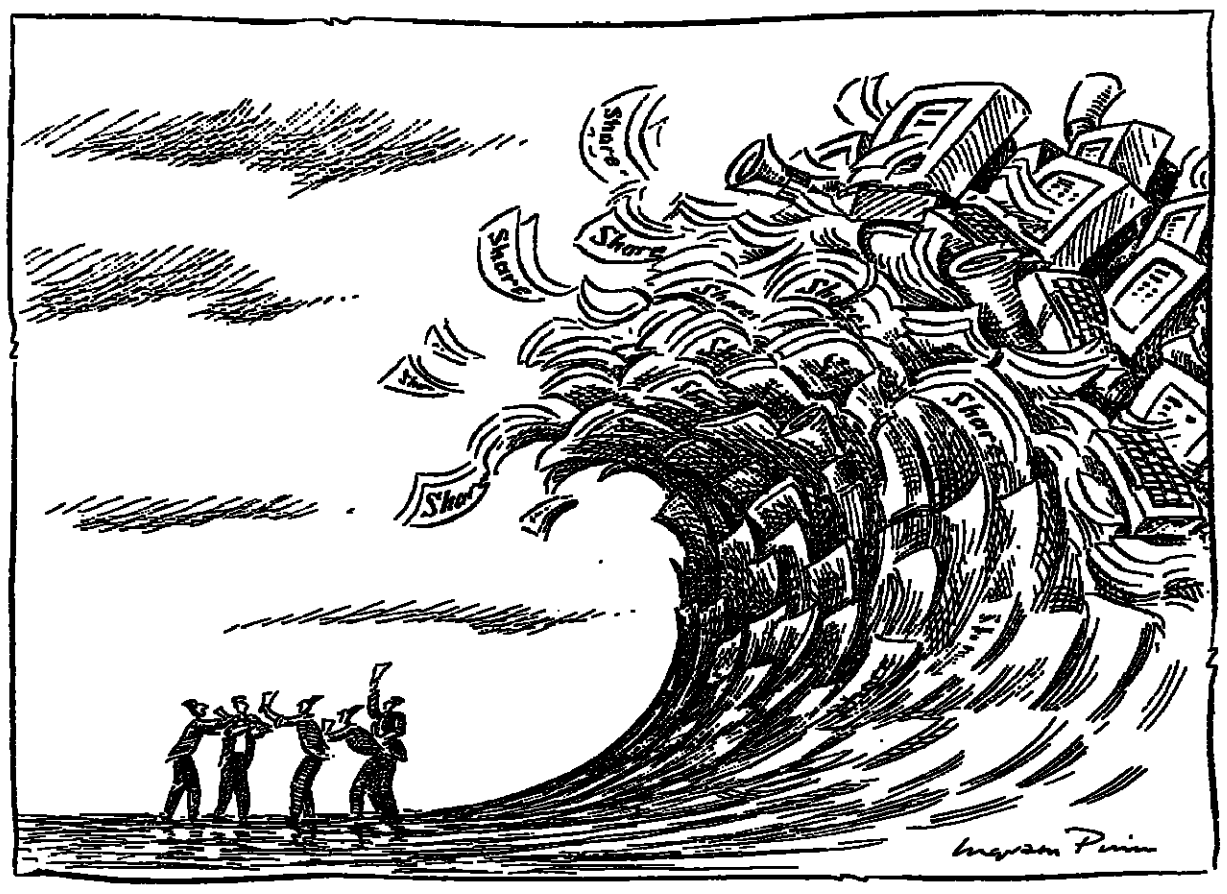
In the West German sample, three quarters of housekeepers or supervisors had followed a three year apprenticeship as hotel "craftspeople" covering a full range of hotel functions. In the British sample, only one housekeeper had any vocational qualifications; none had followed systematic external courses in hotel work. Of those working in the reception area, 55 per cent in the German hotels had relevant vocational qualifications; in the UK only 17 per cent had qualifications or were in training. Nearly all managers in the West German sample had appropriate qualifications compared with just under half in Britain.

The differences in skill levels had practical consequences. German supervisors, for example, spent more time on organisational tasks than their British counterparts who were often obliged to do the work of their staff. The German hotels achieved much greater economy in manning front desks and tended to use receptionists for a broader range of tasks. British managers spent more time on day-to-day duties, such as dealing with over-booking and laundry collection. In German hotels, better qualified staff at lower levels gave managers freedom to plan marketing strategies and the longer-term development of their businesses.

The higher German productivity is not merely a reflection of the higher proportion of qualified staff. It is also a function of the nature of the training received. German courses in hotel work are more broadly based than those in Britain; this leads to the flexible deployment of staff. The award of qualifications also depends to a much greater extent on externally-set and externally-marked written and practical exams; in the UK increasing reliance is being placed on various forms of internal assessment. In addition, German vocational courses, unlike their British counterparts, explicitly require tuition in general educational subjects such as maths and languages. The calibre of those qualifying thus tends to be considerably higher than in the UK.

Overcoming prejudice

During the 1980s the UK has placed increased emphasis on vocational training. However, the bulk of qualifications awarded are at a level so elementary as to have no parallel in countries such as West Germany and France. The challenge for Britain is not only to increase the amount of training but greatly to improve its quality. Courses need to be both broader and more rigorously assessed. Above all, the UK needs to overcome the prejudice that only the small minority of young people destined for professional or managerial occupations are worth educating or training properly. Until it does so, many industries and services will remain needlessly inefficient.



Janet Bush examines the arguments in the US over computerised programme trading

When tradition is swept aside

What is at stake, if the increasingly vociferous Wall Street critics of computerised programme trading strategies are to be believed, is nothing less than the future of the US stock market as a vehicle for capital formation.

Critics of programme trading, even more prominent in the aftermath of the mini-crash of October 13 than after the October crash of 1987, argue that programme trading contributes to unacceptable stock market volatility and greatly weakens the credibility of the markets as repositories for savings and sources of equity capital. The critics fall into five categories:

- Retail brokers at the biggest Wall Street firms believe that their programme-trading colleagues are wrecking the market for the bulk of investors and corporations.
- Traditional money managers say they are fed up with seeing their investment performance obliterated in 15 minutes by something they do not understand and believe serves no long-run economic purpose.
- Large corporations listed on the New York Stock Exchange say that their shares are no longer fairly valued. Companies which aspire towards a NYSE listing say they are more cautious because of the swings associated with programme trading.
- Second-rank broking firms are mutinous because they see their profit margins squeezed as more and more institutional money is funnelled through a handful of Wall Street houses.
- New York Stock Exchange "specialists" (market makers) are up in arms because their limited capital is vulnerable when they do their duty and buy in the face of a computerised selling deluge.

The form of programme trading most frequently cited in these criticisms is stock index arbitrage. This is a trading strategy which aims to make money by capturing price differences between a futures contract on a stockmarket index, such as the Standard & Poor's 500 futures contracts traded in Chicago, and the underlying stocks that comprise the index. If the value of the S & P 500 futures contract falls below that of the underlying stocks, a trader buys the futures contract and simultaneously sells the relevant shares, locking in a profit. Similarly, if cash stocks are cheap compared with the futures contract, they are bought and futures are sold.

Other forms of programme trading also contribute to bouts of volatility because, like stock index arbitrage, they lead to a large volume of transactions being executed in a very short period. The common feature of all these techniques is the use of the New York Stock Exchange's electronic systems to buy or sell large numbers of shares simultaneously.

For example, investors often shift the allocation of assets in a mixed portfolio of bonds and stocks. To raise the equity element of a portfolio built around the shares in the S & P 500 index, an investor needs to buy all 500 stocks in the index at the same time. A quantitative computer model signals when to shift the allocation of assets and then enters an order to do so electronically.

There is increasing evidence that the wild swings in share prices that result from these techniques are dissuading investors and causing companies to think twice before raising capital through a listing on a stock exchange.

The number of Initial Public Offerings fell by more than 75 per cent immediately after the October 1987 crash and has been slow to recover. Mr Alan Hadhazy, senior analyst with the New Issues newsletter, says: "The volatility of the market means that it is much more difficult to pinpoint the best time to come to market. There is a lot more caution and, in the long-term, this probably means that less capital is raised."

There is increasing evidence that the wild swings associated with programme trading are dissuading investment

Programme trading is only part of a much larger problem. At the heart of the current debate is the incompatibility of two investment strategies – "active" investing and "passive" investing as it is commonly practised in the US.

Active investing simply describes traditional investing techniques in which fund managers pick individual stocks and build a portfolio which yields the best possible return. The premise of passive managers is that stock-picking usually fails to improve on, or even match, the returns afforded by a market index such as the Standard & Poor's 500 index.

Passive managers seek merely to replicate the annual return of an index – which is, in effect, a large, diversified and low-risk portfolio.

In theory, all that is needed to match the returns of a stockmarket index is for an institution to buy, say, all 500 stocks in the S & P 500 and hold them. Taking various costs into account, such a strategy would make a slightly lower return than the index – but one which would still outperform historic returns achieved by most stock-picking money managers.

The drawback, from a stockbroker's point of view, is that a client following this strategy would generate hardly any trading commissions. So brokers have persuaded many institutional clients to attempt to boost their returns using stock index arbitrage, the activity which has such a significant effect on volatility.

Mr Stephen Timbers, chief investment officer for Kemper Financial Services, a Chicago-based money manager which is a particular opponent of stock index arbitrage, says it is the sheer size of transactions overwhelms liquidity in the market.

It has also changed normal trading behaviour, he says: "When four guys from Salomon Brothers come along with their programme trades, the person who wants to buy gets out of the way and the seller just accelerates his selling."

Once securities houses realised how profitable arbitrage was, they began to trade on their own behalf. They argue that this arbitrage is useful because it keeps prices in the futures and cash markets in line. They add that an attack on this trading strategy is also an attack on passive investment – accounting for more than $200bn in institutional funds – which has served people well.

Professor Merton Miller, Professor of Finance at the University of Chicago, believes that more investors should put their money into indexed mutual funds, and he supports the practice of using arbitrage to enhance the return on a passive portfolio. He believes that advanced technology has made trading stocks so fast that the days of individual investors indulging in the in-and-out stock picking type of trading are over. Stock picking should be left to the few who have the resources to do it well, he argues.

"There would be fewer investors sitting around in clubs and talking about how an obscure stock they bought had gone up 20 per cent. The stock market would be a lot less fun but no less efficient," Prof Miller says.

Those leading the outcry against programme trading offer a frightening vision of a stock market entirely controlled by passive investors in which a corporation is valued, not for sound management, earnings growth and the quality of its product, but according to its weighting in the S & P 500. There would be no incentive, they fear, for a corporation to perform well.

As the stock market now stands, there is an uneasy balance between the two investment strategies – with a tendency for the traditional section of the market suddenly to become overwhelmed by a deluge of arbitrage trades.

The critics of programme trading believe that current regulations are unfairly stacked against traditional investors because of the favourable treatment accorded to arbitrageurs. Many believe that the futures market no longer serves the stock market but dominates it.

The argument centres on two aspects of the current rules. First, when dealing in stock index futures, arbitrageurs need put down only a 5 per cent "margin" (a down payment which is a percentage of the total value of the trade). Trading in common stocks requires a 50 per cent margin.

Secondly, arbitrageurs have liberally interpreted Securities and Exchange Commission rules to mean that they do not have to abide by the "uptick" rule which applies to ordinary shares. This rule prevents a trader from selling a stock short until a trade is done at a higher price, known as an "uptick." The regulation is designed to prevent traders from driving the market lower and ensure there is no uninterrupted free-fall.

It is extremely difficult to enforce the uptick rule. Brokerages routinely "sweep the firm," using, say, a long position in an asset management section to justify a short sale on the arbitrage desk which may itself have no corresponding long position.

There is a strong lobby to secure change in both these areas. Higher margins would make it less economic to trade minimal spreads between the futures and cash markets in the way that now happens. A stronger uptick rule would make the arbitrage technique much less efficient for many professional arbitrageurs.

Some go so far as to argue that the futures market should be made less liquid by making trading more expensive. For example, "locals" at the Chicago Mercantile Exchange's S & P 500 pit (individual traders who trade on their own accounts) can trade as actively as they wish without putting up a cent as margin as long as their books are matched at the end of the day. That should be changed, say the critics.

Mr Curtis Welling, a managing director of First Boston, the securities house, says: "A financial expert from Mars would look at our system and conclude that a few regulatory adjustments would solve the problem and he would be right."

At the beginning of this month, the New York Stock Exchange announced a package of proposed measures to limit the impact of programme trades fed through its Superdot electronic system. The focus of the proposed changes was on staggered trading delays; they have not yet been approved by the Securities and Exchange Commission, which supervises US stockmarkets.

The exchange also asked members voluntarily to refrain from arbitrage. Most of the main users of stock index arbitrage said they were pulling back from the practice after Kemper Financial Services, a substantial Chicago money manager, announced it would no longer do business with the 10 to 15 large Wall Street houses who are the biggest players.

Most of the houses that have dropped arbitrage have done so only for their own account, however; they continue to accept arbitrage orders from clients. (A few, including Merrill Lynch, have dropped stock index arbitrage even for clients.)

This voluntary approach may crumble in time. Similar bans on programme trading were instituted by a number of houses after the 1987 Crash, only to lapse once the outcry against the practice died down.

More far-reaching changes, proposed in Congress, have so far made little progress. Despite support from a number of stock market officials, they ran into hostility from other Congressmen, and opposition from the Administration.

'A financial expert from Mars would conclude rightly that a few regulatory adjustments would solve the problem'

The issue will not go away; another bout of programme trading-induced volatility will lead to renewed attempts, in Congress and elsewhere, to limit the practice. Regulators must decide whether accommodating the way passive investment is currently practised will, in the end, destroy confidence in the very market they are trying to preserve.

OBSERVER

Real end of empire

■ At some heavenly indaba, the ghosts of long-departed provincial commissioners and colonial governors must be wringing their hands at the news from Northumberland Avenue. The Royal Commonwealth Society, a few strides down towards the Embankment from Trafalgar Square, is to be demolished.

Formerly the Royal Empire Society, it has been the venue for many high-minded meetings in high-ceilinged rooms. Only last week, Britain's man in Suva gave a briefing on Fiji. In the incomparable library, countless doctorates have been researched about all the lands Britain painted red on the map. There was a time when the society's dining-room boasted the best cold table in London.

Now the debts are over £500,000. At an extraordinary general meeting on December 5, members will hear from their chairman, Sir Peter Marshall, an outline of redevelopment plans, incorporating some inevitable "prime site" offices.

Full renovation of the building, designed in the 1930s by Sir Herbert Baker, would cost more than £5m. It is decaying from roof to basement. Moreover, although Baker was a renowned imperial architect – with even some of the more grandiose buildings in Pretoria to his credit – he was not a man to bother much about square footage: half the space goes to waste by present standards.

The building is owned by the Commonwealth Trust, which embraces the Victoria League and has charitable status. Its treasurer is Michael McWilliam, erstwhile head of Standard Chartered. There is a recognition among the trustees that there will be a hard slog before planning permission is gained. But the new club, albeit with lower ceilings, will have far more modern facilities, including a gym.

One point everyone insists upon. The building's splendid panelling, made up of hardwoods from all around the empire, will be saved and reinstalled. The 20,000 members will have plenty to remind them of Baker's solid edifice when they check in from the Home Counties or more far-flung parts.

There will surely be some room reserved for a current "lodger", the Kipling Society. Where would the empire be without him? There is less likely to be a niche for the bust of Cecil Rhodes; he was banished some years ago from the main staircase to a store-room.

Howe hits back

■ Denis Healey once said that being attacked by Sir Geoffrey Howe was like being savaged by a dead sheep.

Howe finally retaliated in his winding up of the Queen's Speech debate in the House of Commons on Tuesday: "Rather disconcertingly, the right hon gentleman makes increasingly benevolent remarks about me. If I may respond in kind to one of his more memorable phrases, I feel rather as though I am being cherished by a dead savage."

Not Nakasone

■ Japan's former Prime Minister, Yasuhiro Nakasone, has had to resign as president of the world affairs think tank he set up last year because his presence has crippled the body's attempts to raise funds. Nakasone was among the many top politicians implicated in the Recruit funds for political favours scandal that shook Japan in the past year, and one of his top political associates was indicted last spring for taking bribes from Recruit.

"My other give-away's a Rover."

The former Prime Minister set up the think tank, called the International Institute for Global Peace, with the aim of contributing to the rather scanty debate on foreign policy issues in Japan.

No doubt he also hoped to keep himself in the public eye. But no sooner had he launched his campaign to raise Y3bn to get the institute established than the Recruit scandal tarnished his image and, by association, that of the institute.

However, the great and the good among Japan's corporate leaders, perhaps worried by the growing tension in Japan's relations with the US, have decided that it is probably worthwhile to have such a body.

They have put in one of their own – Taishi Hiraiwa, chairman of Tokyo Electric Power – as president for a year to get the institute going again.

Businessmen are expected to replace political bosses on the board, although Nakasone is to remain as chairman and the funds will follow shortly.

Back to sea

■ Nostalgic aristocrats may cherish memories of cruising to South Africa between the wars on Union Castle liners. But they should not start packing their travelling bags on news that the Cayzer family – which owned Union Castle and Clan Line Steamers through British & Commonwealth Shipping – is returning to its roots.

The Cayzers' latest cruises will be measured in minutes rather than weeks. Caledonia Investments, the publicly quoted investment group controlled by the former shipping magnates, is planning to buy a stake in Sealink's Isle of Wight ferry service. Caledonia's co-investor is Yattendon Investment Trust, which is controlled by another titled family, the Iliffes.

"It's not been entered into specifically because it's shipping," says Charles Cayzer, a Caledonia director and descendant of Sir Charles Cayzer, who founded Clan Line in 1878. "We see it as an interesting investment which has growth potential."

Whether the £107m acquisition goes ahead depends on one of the new generation of shipping magnates, James Sherwood, president of Sea Containers, which owns Sealink British Ferries. The sale of the Isle of Wight service cannot go ahead unless Sea Containers' shareholders approve the disposal.

It was the upsurge in the container business – the basis of Sherwood's fortune – which eventually drove Union Castle and Clan Line off the high seas.

No prejudice

■ Press release from Southwark Council: "Southwark Council reaffirms its commitment to anti-racism by launching a unique comprehensive, tougher racial harassment policy at a special one-day conference on the 2nd of December."

A united Germany would not be an eastward-turning colossus, argues **Martin Wolf**

Still firmly in the bosom of the West

Spectres are stalking across the plains of the European imagination. A united Germany will dominate Europe – if not tomorrow, then the day after. As if this were not enough, there is the opposite vision: that of a West Germany indifferent to the European Community. The EC would then disintegrate, it is feared, and the efforts of the founding fathers of the post-war European order turn to dust.

This view of things is overblown. The addition of East to West Germany would not make as much of a difference as is supposed; nor would a united Germany be as overwhelming in European affairs as some people believe. It is also unlikely that West Germany or a united Germany would turn all its attention eastwards. Modern Germany is a trading power. As such, it is improbable that it would turn its back on the huge markets of the West to pursue a will-o'-the-wisp in the East.

As markets for West German exports, the share of the principal countries of eastern Europe – Czechoslovakia, East Germany, Hungary, Poland, the Soviet Union and Yugoslavia – was in 1988 a mere 5.6 per cent. By contrast, 54.4 per cent of West German exports went to the rest of the EC and another 16.7 per cent to members of the European Free Trade Association (Efta).

West Germany's exports to the rest of western Europe exceeded those to the principal eastern European countries by a factor of 13 to one. In fact, its exports to each one of France, the UK, Italy, the Netherlands, and Belgium and Luxembourg exceeded its total exports to the principal eastern European countries.

In a united continent, one would expect West Germany's dependence on western European markets to be reversed a little

Suppose, for the sake of argument, that the volume of West German exports to Eastern Europe were to grow at the extraordinary rate of 15 per cent a year, from now to the end of the century. Suppose also that exports to the EC and Efta were, despite the 1992 programme, to grow at only 4¼ per cent a year (close to the average rate of growth of West German exports in the 1980s). The absolute increase in West German exports to the rest of western Europe would still exceed that of exports to eastern Europe, including the Soviet Union, by two to one.

West German industrialists and politicians would be remarkably foolish to decide that their stake in the West can be sacrificed to the glimmer in the East. More likely is a modest rebalancing of the relationship. Between 1958 and 1988 the share of western European countries as markets for West German exports rose from 47.8 per cent to 71.1 per cent. In an economically united continent one would expect this dependence on western European markets to be reversed a little, though it would not disappear.

The reason it would not disappear is the demographic geography. Leaving aside East Germany, one finds that the combined population of Czechoslovakia, Hungary, Poland and Yugoslavia is only 90m. The population of western Europe, even excluding West Germany, is 275m. Even if these eastern European countries were to attain western European levels of income per head – something that is unlikely to be achieved for half a century – their combined purchasing power would still be a third of that of western Europe, excluding West Germany.

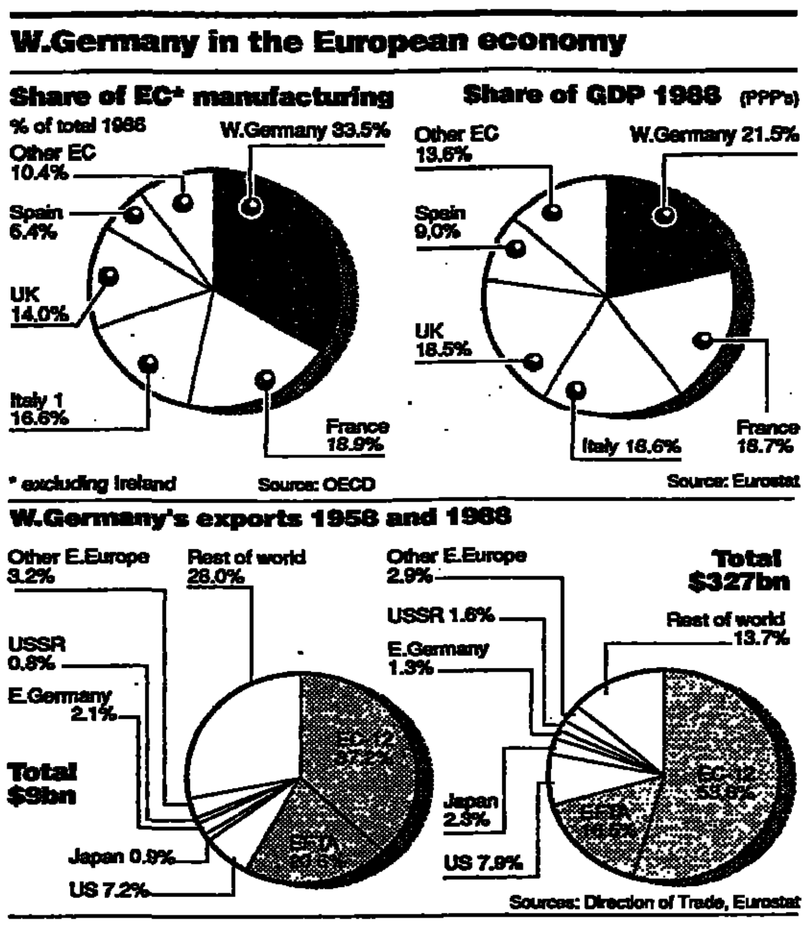
With its population of 285m, the Soviet Union is on a different scale. But it is likely to remain relatively closed to trade, even if it prospers. This is certainly the case for that other continental economy, the US, which takes only 8 per cent of West German exports.

So much for the *Drang nach Osten*. Having achieved more wealth, more respect and arguably more influence by trading with the West than was hoped for from conquest in the East, it is difficult to envisage the sharp reversal in direction now feared. What then of that other nightmare, the domination of a united Germany over the whole of Europe? The addition of East to West Germany would not make as much of a difference as is supposed and the combined might of the two has been exaggerated.

Economic power is, in any case, no simple concept, except when one is evaluating a country's capacity for war, for which the best measure is the size and sophistication of the industrial sector. In the context of peaceful relations among states, however, the concept of economic power is extremely slippery.

Consider, for example, the Bundesbank, unquestionably the most "powerful" central bank in Europe. One reason for its power is that West Germany has the largest economy. A more fundamental reason is that, at least within the EC, the Bundesbank has won a deserved reputation for being by far the best central bank.

None the less, relative gross domestic product is the customary measure of economic power. It is at least a rough measure of the resources available in a country. At market exchange rates, West Germany accounted for 26.1 per cent of the combined GDP of the 12-member EC in 1987. France had 20.5 per cent; Italy 17.7 per cent and the UK trailed in last of the big four at 15.6 per cent. The GDP of East Germany is unknown and, because of the economic system, essentially unknowable. The only certainty is that per head it is much less than that of West Germany.



Suppose that East and West Germany were united and that the eastern part were ultimately to attain the same income per head as the western (which would take decades, not years). The effect would be to make the GDP of West Germany just over a quarter larger than it would otherwise have been. If the relationship between what was West Germany and the rest of the EC were to remain unchanged, the GDP of the new greater Germany would be 31 per cent of the combined GDP of the new, larger EC and and also be equal to the sum of Italy and the UK.

There is an alternative – in most respects better – way of computing GDP, namely, purchasing power parity. PPP-adjusted GDP gives a very different picture of the relative size of the West German economy. Instead of 26.1 per cent of the EC total, its share in 1987 shrinks to 21.5 per cent. That of France falls from 20.5 per cent to 18.8 per cent, but that of Italy rises from 17.7 per cent to 18.5 per cent and that of the UK from 15.6 per cent to 18.5 per cent. The net effect of this adjustment is to reduce the relative size of West German GDP significantly. With the same adjustment as before, the GDP of a united Germany would be below 26 per cent of EC GDP and only 70 per cent of the combined GDP of Italy and the UK.

What explains the differences between the two measures of GDP? In West Germany labour is, by international standards, exceptionally efficient in the production of tradables, but not very efficient in the production of non-tradables. The reverse is the case for the UK. At market exchange rates, which equalise the prices of tradable goods and services, West Germany has expensive non-tradable goods and services and the UK relatively cheap ones. Correspondingly, conversion at market exchange rates exaggerates the relative size of the West German economy and understates that of the UK, because the higher prices of West German non-tradables look as if they represent higher real output and vice versa. The PPP-adjusted GDPs are, therefore, the better measure of the relative size of the two economies.

Quite apart from being relatively efficient, West Germany also has a relatively large manufacturing sector. The two points are distinct. The West German manufacturing sector is a large share of the country's GDP because the country is a persistent exporter of capital, which requires it to produce more tradables than it consumes at home. In 1988, for example, the West German surplus on trade in manufactures was $109bn, about a quarter of all manufacturing output.

In 1986, West Germany accounted for 33.6 per cent of EC manufacturing. West German manufacturing was 78 per cent larger than that of France, more than twice as big as that of Italy and 140 per cent bigger than that of the UK. Moreover, in this case, exchange rate conversions would give a reasonably accurate picture of relative size. If the addition of East Germany were ultimately to increase the size of German manufacturing sector proportionately, then German manufacturing would be 85 per cent of the size of France, Italy and the UK combined. This is not that great a change, however. It is 68 per cent today.

At market exchange rates, West Germany has expensive non-tradable goods and services and the UK relatively cheap ones

What is needed is a sense of proportion. The Germans are unlikely to turn all their attention eastwards. Moreover, on the basis of its purchasing power, a united Germany is unlikely to contribute more than a quarter of EC GDP. Where a united Germany is likely to be twice as large as any other EC country is in manufacturing. Whether that is a decisive indicator of economic "power" depends on whether one anticipates another European war. That looks a pretty remote contingency. One must also not forget the declining relative economic size of Europe as a whole – but that is another story.

BOOK REVIEW

The riddle of the Philippines

REBELLION AND REPRESSION
By Richard Kessler
Yale University Press £22.50 $30

A lingering Asian irony is that Filipinos, who popularised the phrase "peaceful people-powered revolution," later invoked in Burma, South Korea and in China's Tiananmen Square, continue to suffer from an enervating "people's liberation" war that is immensely costly in human lives.

Casual observers and policy makers in Manila and Washington have all wondered why the 20 year long insurgency has not crumbled since Corazon Aquino swept to power four years ago on a wave of renewed democratic zeal. And why, they have asked, has the army, freed of its role as President Marcos's personal bodyguard, not been able to harness popular support against the 24,000 odd communist-led guerrillas?

Rebellion and Repression admirably answers these questions and exposes the fallacy that Marcos's oppression alone created the Communist Party of the Philippines and its military wing, the New People's Army. In doing so it repeats the cautionary tale that unless the government, the rich and the powerful learn to address the simple but fundamental demands of the poor, the Communist party's two decades spent nurturing mass base support may yet bear fruit.

Richard Kessler, an Asian specialist who recently joined the staff of the US Senate's Foreign Relations Committee, reminds us that the Philippines has seen centuries of peasant rebellion.

Grievances hardened when the US assumed power in Manila at the end of the Spanish-American war in 1898. Filipino peasants felt they had been shortchanged by an élite more interested in a changing the guard than restructuring land ownership.

Kessler says peasant distrust of the Philippine military also dates from this period. "Prior to martial law, it (the military) was viewed by peasants and the poor as an instrument of élite repression," Kessler says. It functioned as the primary tool to frustrate social reform.

As early as 1901 the US-formed Philippine constabulary became party to a "policing action" against Filipino peasants and nationalists that became a brutal four-year pacification campaign in which 16,000 Filipinos and 4,000 Americans died.

Kessler says the Philippine military was never apolitical and that when Marcos hijacked it during martial law he was simply refining the army's meddling in politics.

This deep-rooted distrust is central to the country's problem since for many peasants their principal contact with government is when soldiers appear in their village.

It was perhaps unsurprising, therefore, that Philippine intellectuals in the 1960s were able to rekindle the embers of an earlier insurgency and forge links with peasants already fighting for land.

Kessler carefully documents these early, precarious revolutionary days and describes the extraordinary boost that Marcos's declaration of martial law in 1972 gave the movement: "possibly no other act was as instrumental in legitimating the Communist Party of the Philippines in the minds of the discontented."

But as the movement put down roots it found that "in the social and historical conditions . . . there was fertile ground for it to spread."

Kessler does perhaps pull his punches when dealing with the role of US governments. Successive US administrations have sometimes reluctantly, sometimes actively, supported Marcos and now Mrs Aquino in a "total war" anti-insurgency strategy using military aid provided in payment for use of the strategic military bases. But US policy makers should read this book as they approach the 1990 negotiations to extend the leases on these military bases.

Ultimately the message about a stubborn, deeply entrenched, self-supporting insurgency is what the author Jeffrey Race wrote about Vietnam: "To gain victory the revolutionary movement did not need to be "good" or "effective" by any absolute standard," he said. "It needed to be better than the government."

Richard Gourlay

LETTERS

The new Globe and the foundations of the old

From Mr Sam Wanamaker.

Sir, Your's was a most comprehensive and concise account (November 25) of the immensely important archaeological finds and unexplored potential of North Southwark's spectacular heritage.

The reference to the need to excavate fully the Globe Theatre foundations is a matter of great urgency for the Shakespeare Globe Trust, which is building the International Globe Centre and a faithful reconstruction of the theatre.

Until the foundations were uncovered a few weeks ago, the reconstruction was based on the best evidence in the research of leading Elizabethan theatre scholars. Now that the actual foundations have been uncovered, the trust eagerly awaits what evidence can be gleaned from them so that it can incorporate the information in the Globe replica.

However, with inflation running at 8 per cent, and the cost of borrowing at 17 per cent, a protracted delay will add severely to the trust's costs. So far, the trust has had little help from the UK Government. English Heritage and the Minister for the Environment must not compound the problem. They should reach an early decision to permit the taking down of the interior of Anchor Terrace, the Grade 2 listed building standing in the way of more excavations.

The terrace was extensively remodelled long ago to accommodate modern offices for a big brewing company. It is one of more than 1m late Georgian buildings of the type – of which there are thousands of better examples in London. By all means keep the facade of Anchor Terrace. But allow archaeologists to recover fully, and as quickly as possible, the foundations of the greatest theatre in the world.

Sam Wanamaker,
Executive Vice-Chairman,
The Shakespeare Globe Trust,
Bear Gardens, Bankside,
Liberty of the Clink,
Southwark, SE1

'Today Fimbra has money in the bank . . .'

From Mr R.F. O'Brien.

Sir, David Barchard's account (November 27) of Fimbra (Financial Intermediaries, Managers and Brokers Regulatory Association) members shocked by the £3m deficit reported in the association's annual accounts, in his report headlined "Members of Fimbra launch revolt over running costs," requires clarification. This year's annual accounts, in fact, tell a tremendous success story.

Fimbra, unlike the other SROs (self-regulating organisations), did not have an affluent membership to fund its transformation into a recognised self-regulating organisation under the Financial Services Act. So it sought the necessary working capital from the Bank of England.

In March 1988 we had a real deficit of £2.4m, after deducting deferred subscriptions of £998,000. By November 1988 our projections showed a probable bank overdraft of £5.6m by the end of March 1990, and a persistent downward spiral into increasing debt.

Yet by March 1988 we had reduced our real deficit – taking deferred subscriptions into account – to approximately £400,000. During 1988-89 we reduced our overdraft by £800,000 and reduced creditors (including the Securities and Investments Board – SIB) by £750,000. Today we have money in the bank.

We ended 1988-89 slightly under budget on expenditure, giving us a surplus on the year's operations of £324,360. This year's expenditure is also well under control.

Average staff salaries actually dropped slightly in 1988-9, and our present establishment of 1989 represents a substantial reduction in the ratio of staff to members from pre-Financial Services Act days, when about 35 staff regulated 1000 businesses.

In 12 months, therefore, the council and senior management of the association have transformed Fimbra into a toughly-managed organisation accountable, first, to SIB for the quality of investor protection, and then to Fimbra members who, under the Government's present system of self-regulation, foot the bill.

R.F. O'Brien,
Chief Executive, Fimbra,
Hertsmere House,
Marsh Wall, E14

Data in doubt

From Mr Henry Neuburger.

Sir, My allegations about the diagram issued for the Autumn Statement were unfounded (Letters, November 24, 28).

The data remain, however, of doubtful relevance. The theory implied is that a shortage of UK industrial capacity leads to a shortage of supply of exports or import substitutes. To test that theory, the relevant trade measure is the balance of manufacturing trade volumes. Using these data, there is no significant relationship between capacity and trade.

The apparent link achieved by the Treasury's ingenious statisticians results largely from fluctuations in non-manufactured trade – not affected by the manufacturing capacity which the CBI survey measures.

Henry Neuburger,
21 Northchurch Road, N1

The Ecu becomes a more flexible friend to Europe

From Mr Didier Cahen.

Sir, Since November 8, all Luxembourg's shops, hotels and restaurants have displayed prices in both Ecus and Luxembourg francs. For the first time in the history of building a European monetary system, anyone – whether resident or not – can use Ecus to settle bills. The European currency unit thus fills two roles: a unit of account (for displaying prices), and a means of payment. You can pay in Ecus by cheque, Eurocheque, postal cheque or travellers' (Ecu) cheque, and by Visa, Eurocard, American Express or Diner's credit card. No coins or bank notes are being issued, so this new use of the Ecu neither adds to the money supply nor causes difficulties for national economic policy.

This event is a monetary breakthrough on two fronts.

The traditional Eurocheque guarantee has been extended by the issuing banks to Eurocheques made out in Ecus, up to Ecu170 per cheque.

Both Visa International and Eurocard International have accepted the Ecu as an official instrument for payments and transactions.

In practice, this means that the International Visa and Eurocard processing network is now able to process payments and transactions in Ecus. Similarly, the European banks which issue Visa or Eurocard-MasterCard cards can now start issuing or continue to issue Ecu cards. It also means that more than 1.5m merchants who accept Visa and Eurocard-MasterCard in Europe may from now on accept payment in Ecus.

Thus, from a technical point of view, nothing stands in the way of repeating the Luxembourg experiment in other European Community countries. This would enable European citizens to use Ecus to pay their bills by cheque, Eurocheque or credit card.

This would be of particular advantage to those holders of Ecu accounts, who, when travelling in the EC, would no longer have to pay exchange fees or commissions. Introducing the Ecu into electronic point-of-sale terminals (already technically possible) would further boost this fundamental advance of the Ecu.

These monetary breakthroughs illustrate the following:

- That despite the lack of an European Central Bank, and despite the nature of the Ecu as a "basket" currency, the European currency unit fulfils a market need;
- That the Ecu possesses all the attributes which, since the days of Aristotle, have been associated with a currency;
- That it is natural for it to become the European currency.

The Ecu has thus become a reality for savers and has established itself as a future means of payment for travellers. But it can now also be used in day-to-day transactions, as demonstrated in the Grand Duchy of Luxembourg.

Didier Cahen,
Association Eurocitoyen,
57 Rue Chambière,
57000 Metz, France

FINANCIAL TIMES

Thursday November 30 1989

INDIAN ELECTIONS

Gandhi resignation paves way for opposition

By David Housego in New Delhi

MR RAJIV GANDHI resigned as Prime Minister of India yesterday, raising the possibility that the Nehru family dynasty which has ruled the country for all but two of its 42 years since independence may be at the end of its political life.

The resignation paves the way for the opposition National Front, led by Mr V. P. Singh, a former Cabinet colleague of Mr Gandhi, to form the next Government.

A planned meeting of the National Front parliamentary group to confirm Mr Singh as leader and Prime Minister was postponed until tomorrow. Vote-counting was continuing in the eastern state of Bihar, meaning that many newly elected members would not be able to reach Delhi before tomorrow.

In a television broadcast last night after the Congress Party's defeat in the election, Mr Gandhi said that "in all humility we respect the verdict" of the electorate.

He offered "good wishes and constructive criticism" to the new Government in a brief statement marked by its simplicity and dignity.

Mr Gandhi spoke shortly after the Parliamentary Congress Party, now dominated by members from the south, unanimously re-elected him as leader, although party leaders told him privately to remove his "coterie" of bureaucrats and advisers and to look to them for political counsel. Mr Gandhi's authority has been much weakened and he has been left vulnerable to challenges.

With 514 of the 525 contested seats declared, the Congress Party last night had won 190, the Janata Dal (the main constituent of the National Front) 135, the militant Hindu BJP party 88 and the Marxist parties 50.

Most of the remaining results are due from Bihar and Uttar Pradesh and are expected to go to the Janata Dal.

The Marxists and the BJP gave formal assurances of their support to a National Front minority administration yesterday.

Public response to the prospective change in government has been subdued – particularly compared with the crowds that poured on to the street after the defeat of Mr Gandhi's mother, Indira, in 1977.

Mr Gandhi remains as caretaker Prime Minister until a new government is formed. One of the last acts of his Administration was to drop charges against Mr Simranjit Singh Mann, the Sikh militant leader elected to the Parliament from the Punjab while still in prison.

Indian President P. Venkataraman (left), received Prime Minister Rajiv Gandhi's (centre) resignation yesterday, making way for V.P. Singh (right), to lead a new coalition government

Brussels to back clean-up of coasts

By Tim Dickson and Lucy Kellaway in Brussels

THE European Commission yesterday agreed to spend Ecu500m ($565m) over the next three years to help clean up polluted coastal areas of the Community, notably those in the Mediterranean region.

The announcement, jointly issued by the Regional Affairs Commissioner Mr Bruce Millan and Environment Commissioner Mr Carlo Ripa di Meana, is one of the first indications that the EC is prepared to back with money its increasingly ambitious environmental ideas.

In a separate development – the increasingly delicate balancing of "green" priorities against those of the internal market – it emerged that the Italian Government is keen to push the question of environmental taxes to the top of the Community's agenda.

Officials admit that the coastal clean-up money being made available from the EC's structural fund kitty is small in relation to the overall problem – Mr Ripa di Meana, for example, was pushing for a higher sum – but they point out that when "geared up" with member state contributions under the rules of the scheme more than Ecu1bn of new funds should become available.

Two distinct but complementary programmes were agreed as part of yesterday's package. The most substantial is Envireg, which will be spent on projects aimed at sewerage and toxic waste disposal in coastal regions of the Community already targeted for special support because of their declining industrial base or predominantly rural character.

The second programme is Medspa, on which the Commission currently envisages a Ecu37m budget for the next three years and which is exclusively centred on the Mediterranean region, including countries outside the Community such as the Maghreb, Yugoslavia and Malta. Initially the resources, described by Mr Ripa di Meana as "seed money," will be spent largely on feasibility studies.

Asked later about the question of environmental taxes, Mr Ripa di Meana said that the Italian Government had put forward several ideas at Tuesday's Environment Council on its draft budget for taxes on a number of items, including plastic bags. He said that he was personally sympathetic to such a policy but that it raised many difficult questions and that the Commission had agreed to draw up a framework to deal with the potential conflicts with the free internal market.

Rome is understood to be promoting similar ideas in the context of the OECD. Experts in Brussels believe that Italy may try to use its six-month presidency of the EC in the second half of next year to promote action.

In a third development yesterday, the Commission called on member states and the energy industry to look for other alternatives to fossil fuels as a source of energy in an attempt to reduce carbon emissions and ease the greenhouse effect.

The warning came in a report on energy and the environment to be presented to the Council of Ministers and is a first step towards a common European stance on more environmentally sound forms of energy.

Although the report skirts round the sensitive issue of choosing between fuels, its recommendations could involve giving a higher priority to nuclear energy.

An EC report says the Community must start saving energy to cut its contribution to the greenhouse effect, Reuter reports from Brussels.

The report warns that EC emissions of carbon dioxide will have increased 25 per cent between 1980 and 2010 unless the member states take action.

The report, intended to help EC energy ministers work out future strategy, recommends urgent action to cut energy consumption and increase efficiency.

Nissan to make £31m investment in UK

By Kevin Done, Motor Industry Correspondent, in London

NISSAN MOTOR, the Japanese car maker, is to set up two centres in the UK for the design and development of cars and light commercial vehicles for the European market as part of the establishment of a satellite-linked global research and development network.

It is investing more than £31m ($48m) in design and development facilities in the UK with the creation by the end of 1991 of 350 jobs in Bedfordshire, and in the north-east.

Nissan aims to create a design and development capability in Europe which, within five years, should be able to take on the independent development of new model ranges distinct from those originating in Japan or in the US.

Mr Ian Gibson, managing director of Nissan Motor Manufacturing UK, which is Nissan's Sunderland-based UK car assembly operation, said: "The target is that we should be able to design a vehicle from scratch in Europe."

For the foreseeable future Nissan's European operations would continue to draw engines and transmissions from the parent company's design and development resources in Japan.

Within 8-10 years, however, it is aiming to be able to launch model ranges in Europe, where the body, suspension, drive axles and trim have been designed, developed and engineered in Europe, chiefly in the UK.

Nissan European Technology Centre, the company which will form the European link in the company's global R&D network, is to locate its main operation at the planned technology park at Cranfield Institute of Technology in Bedfordshire.

The new company will be responsible for the design and development of cars and light commercial vehicles to be built at Nissan's assembly plants in Britain and Spain.

NETC will also make considerable use of outside design and development consultants to add to its own capacity.

The rapid development of NETC has been made possible by advances in communications, which are allowing Nissan, and some of its leading rivals such as Toyota, Ford and General Motors, to set up a global technical information network.

Nissan is establishing a computer aided design (CAD) network linking its computers in Japan, the US and Europe, with overseas bases having instant access to data stored in Japan.

The CAD network is a cornerstone in Nissan's global strategy, which has progressed from the establishment of a worldwide sales network for Japanese-built cars to the setting up of local production facilities overseas.

Nissan said that NETC would invest £26m in the Cranfield operation, which would be involved in designing and developing new vehicles "to meet the specific demands of the European customer". Some 250 jobs will be created on the Cranfield site, where Nissan will be the first arrival.

A second operation will be established at the company's car assembly plant site in Sunderland.

Czech opposition expects poll by June

Continued from Page 1

state President, will be replaced with a figure of their own choosing by December 10, the date by which the Forum has demanded his resignation.

The group will not, however, take any part in the coalition government of experts now being put together by Mr Ladislav Adamec, the Prime Minister, working to a Civic Forum deadline of this Sunday. The group sees this Government as a temporary one, with the transitional task of holding state power until a new democratic era is ushered in.

Civic Forum's own "candidate" for the premiership is Prof Valter Komarek, head of the Prognostik economics institute who last night addressed a big rally in a sports stadium in Julius Fucik Park, while hundreds of posters sprang up round Prague calling for him to be Prime Minister.

It is less clear who the Forum would put forward as President. Mr Alexander Dubcek, the former Party General Secretary sacked following the 1968 Soviet invasion, has his supporters, but many of the opposition believe him tainted by compromise and failure. Some of these are now pushing the name of Mr Jiri Hanzelka, a non-Communist economics writer respected by the opposition with some links to the Communist leadership.

Late on Tuesday night, Mr Karel Urbanek, General Secretary, said Communists must accept the loss of their leading role – "If we do not convince the party members and the people of this country that we are able to change, then we will be beaten."

He added, however, that the Party would not give up the workers militia – its armed private force – nor hand over its buildings for public use. It would not sack directors of enterprises whose only qualification was Communist Party membership; and it would not undertake a total revision of its support for the 1968 Warsaw Pact invasion.

Although Mr Urbanek did not say so, sources within the Forum said they believed the Communists would also fight to keep President Husak in office. Gen Milan Vaclavik, an army commander in Bratislava and a deputy for Trenon, told the assembly: "The army will support the Party and the building of socialism in this country."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	18	61	Dubrovnik	Dr	7	45	Malta	S	18	64	Rhodes	S	16	61
Algiers	F	21	70	Edinburgh	C	4	39	Manchester	S	7	45	Rio de J'o	C	29	84
Amsterdam	S	3	37	Faro	C	16	61	Manila	C	30	86	Rome	S	13	55
Athens	F	11	52	Florence	S	11	52	Melbourne	S	32	90	Salzburg	S	5	41
Bahrain	S	26	79	Frankfurt	S	2	36	Mexico City	F	24	75	San Francisco	S	6	43
Bangkok	F	30	86	Funchal	F	19	66	Miami	F	24	75	Seoul	S	0	32
Barcelona	C	13	55	Geneva	S	3	37	Milan	C	2	36	Singapore	F	30	86
Beirut		–	–	Gibraltar	F	18	64	Montreal	S	-15	5	Stockholm	S	-1	30
Belfast	C	7	45	Glasgow	C	4	39	Moscow	S	-15	5	Strasbourg	C	2	36
Belgrade	S	1	34	Guernsey	S	7	45	Munich	S	1	34	Sydney	S	23	73
Berlin	S	3	37	Helsinki	C	0	32	Nairobi	C	21	70	Taipei	F	18	64
Biarritz	C	17	63	H. Kong	S	17	63	Naples	S	11	52	Tangier	F	19	66
Bombay	S	32	90	Innsbruck	S	2	36	Nassau	C	28	80	Tel Aviv	F	25	77
Bordeaux	F	12	54	Inverness	S	5	41	New Delhi	S	22	72	Tenerife	S	22	72
Brussels	S	0	32	Islamabad	F	20	68	New York	C	2	36	Tokyo	C	14	57
Budapest	S	1	34	Istanbul	F	5	41	Nice	S	14	57	Toronto	S	-12	10
B Aires	F	24	75	Jakarta	C	33	91	Nicosia	T	18	64	Tunis	C	15	59
Cairo	F	26	79	Jersey	S	5	41	Oporto	F	15	59	Valencia	C	17	63
Cape Town	S	28	82	Jo'burg	S	23	73	Oslo	S	-2	28	Venice	S	7	45
Caracas		–	–	Lima	F	23	73	Paris	S	3	37	Vienna	S	0	32
Casablanca	F	19	66	Lisbon	F	14	57	Peking	S	8	46	Warsaw	C	-4	25
Chicago	S	-11	12	London	S	8	46	Prague	S	8	46	Washington	C	4	39
Cologne	S	3	37	Los Angeles	S	9	48	Reykjavik	R	8	46	Zurich	C	-1	30
Copenhagen	C	2	36	Luxembourg	S	2	36								
Corfu	S	20	68	Madrid	F	13	55								
Dallas	S	3	37	Majorca	C	16	61								
Dublin	C	8	46	Malaga	C	17	63								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Soviets attack Bonn plan

Continued from Page 1

dox Communist regime in East Germany continued yesterday with the resignation of the entire leadership of the official trade union movement.

The number of East German visitors seeking permanent residence in West Germany has increased. The number passed 2,000 on a single day last Monday, one of the highest figures since the opening of the borders earlier this month.

Also, according to some reports, the number of East German refugees has been undercounted by about 40,000 since the beginning of November, which would mean the real total since that time is about 150,000.

In Rome, Mr Gorbachev's talks with the Italian Government last night yielded an unexpected agreement to create a semi-institutional basis for the Italian-Soviet political relationship.

It was agreed the two countries would create a joint standing committee at official level for consultation and collaboration.

THE LEX COLUMN

Patience snaps in Savoy opera

In the 36 years since the Savoy repelled its first boarders, Sir Charles Clore and Lord Samuel, the company has wasted more than just the lawyers' fees it spent on creating its bulwark of 'B' shares. The Savoy, the Berkeley, the Connaught and Claridge's could have been the foundation for creating a world-class business. Dunhill, in the last decade and in an adjacent field, has given the City an example of how it can be done without compromising quality.

The Savoy's board may have got the better end of yesterday's settlement. As far as Trusthouse Forte is concerned, this is probably the best deal it could have got. The Savoy board was on reasonably strong ground in company law, whatever that may say about the state of English jurisprudence. But the important issue, now all the whimsical anecdotes about Sir Hugh Wontner are presumably behind us, is the future. For with the debilitating THF litigation and at least £1.5m of legal costs now behind it, the Savoy has no longer any excuse for failing to make up lost ground in developing its business.

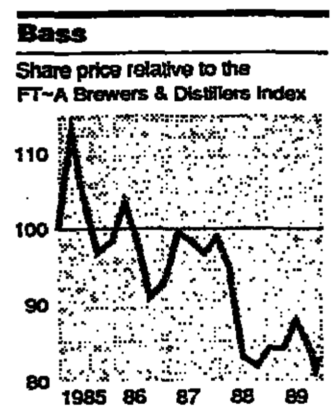
There is obvious room for co-operation between the Savoy and THF. The fact that the Savoy's profits dropped from £14.3m to £12.5m last year reflected its over-reliance on the US market. With, say, its Tokyo marketing office, THF offers the Savoy the chance to tap into a broader customer base. This is not to mention the resources available if the Savoy wishes, as it hinted yesterday, to spend £12m or so in putting an extra floor or two on its flagship.

Hanson

The market's lack of interest in Hanson's full-year figures is basically a compliment. It is not that the trading performance is unimportant; the quality of Hanson's industrial management is simply taken for granted. The only division to show a fall in trading margins was building products – no surprise and only a fifth of the business, anyway. Group margins were, meanwhile, up from 11.3 to 12.5 per cent.

But the figures are also a useful reminder of the volatility of Hanson's other business, asset trading. Including the profits on asset sales classed as extraordinary, total net profit for the year was actually 2 per cent down. The Gold Fields disposals will restore momentum in the current year, but this only underlines the fact that Hanson cannot abandon its function as corporate breaker's yard.

On the other hand, recessionary conditions are just the thing for a predatory company with £5.3bn gross cash on its balance sheet and moving towards nil gearing. Whatever the next big target, earnings growth of over 10 per cent is already likely in the current year, putting the shares at 228p on under 11 times earnings. Having outperformed the market by nearly a quarter in the past year, the stock may not have much further to go. But it still looks a safe home in nervous times.



Bass

As Bass girds itself for completion of its $2bn purchase of Holiday Inn, it is a considerable comfort to see the robustness of its core UK business. Not that the deal will stretch its finances unduly; yesterday's annual results showed pre-tax profits at £529m, or nine times interest costs, an enviably strong position to start from. The real worry about Holiday Inn is the strain it could place on management resources, given the geographical spread of its hotels and the work needed to bring it upmarket in the US.

Hence the relief over how well UK brewing and pubs are doing. The £34m exceptional charge for the costs of separating Bass's breweries from its inns was a surprise. But it is not necessarily a bad sign, since it suggests that the exercise is probably more important and worthwhile than the stock market grasped when it was announced this summer.

In addition, the key figures of market share and trading margins are heading the right way. At 16.7 per cent, the brewing and pub retailing margin is high, but sustainably so, given the continuing boom in lager sales, Carling Black Label's 6 per cent growth in particular. At about nine times expected 1989-90 earnings, last night's share price of £10.03 does not look demanding.

Markets

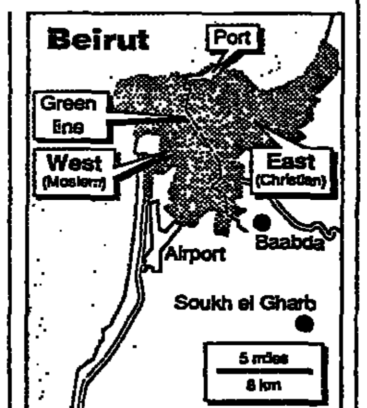
At yesterday's close of 2,255.6, the FT-SE has risen 8 per cent in a month which has seen sterling fall to within a few pfennigs of its all-time low against the D-Mark. The marketshave plainly abandoned all thought of base rates being deployed in sterling's defence. What is less clear is whether the equity market also assumes that sterling has touched bottom; or if not, whether it would be relaxed on seeing it fall further.

The former is the optimist's view, which says the market is now looking through the present troubles to the good times of 1991. The less cheerful possibility is that the market is simply welcoming the short-term effects of devaluation on corporate earnings without giving thought to inflation further out.

Tate & Lyle

Last year was Tate & Lyle's great leap forward, as its 1988-89 acquisitions spree flowed through into profits and its business structure assumed a definite transatlantic look. The risks are illustrated by the leap to 159 per cent gearing, even after a property revaluation; but so far the strategy has been well-judged. Acquisitions contributed around 90 per cent of the operating profit improvement and earnings per share rose 30 per cent; even the dollar has moved in the right direction. Since the Staley deal was clinched, the group's shares have outperformed the FT All-Share by 12 per cent.

This year, Tate & Lyle should return to a steadier rate of growth, as some of the benefits from drought-induced higher US sugar prices disappear. On the plus side, Staley should benefit from better costs and gearing will come down to about 80 per cent over the year as peripheral businesses are sold. The net effect will probably be pre-tax profits of around £215m, putting the shares on a p/e of just under 10. That discount to the market reflects Tate & Lyle's solid rather than spectacular growth prospects and the much diminished likelihood of a bid.



Syrians continue build-up in Beirut

By Lara Marlowe in Dar el-Baidur, Lebanon

AN extensive Syrian military build-up around East Beirut continued yesterday despite diplomatic efforts by the French Government and Catholic church to defuse the crisis.

The Syrians are believed to have brought some 15,000 troops into the mountainous area to the south-east of Baabda, the headquarters of Gen Michel Aoun, the Christian leader, and into Beirut's southern suburbs. They have also deployed dozens of T-55 and T-62 Soviet-made tanks since Monday night.

Thirty-nine right-wing French MPs arrived from Paris to join the "human shield" around Gen Aoun, who also received the unexpected 11th-hour support of 6,000 "Lebanese forces," or Phalange militiamen, under Mr Samir Geagea.

It was a miserable afternoon in Dar el Baidur, the mountain pass leading from the Bekaa to Beirut. In a deluge of rain and hail, the detritus of the night's military movements were stranded in a four-mile traffic jam on the steep incline. Shia Moslems fleeing Beirut's southern suburbs vied for road space with supply trucks returning to Damascus for more food and ammunition.

In only two hours, at least 30 Soviet-made 120mm and 130mm towed artillery guns made their way up the mountainside en route for the Mdeirej ridge and the strategic positions of Aramoun, Bhamdoun and Hammana, on the outskirts of Beirut.

After a Syrian reconnaissance flight over Baabda on Tuesday, Gen Aoun yesterday spread anti-aircraft guns in the hills around the palace.

By nightfall Syrian troops had abandoned all but one of their checkpoints in the Ouzai quarter leading into Beirut. Some were manned by Moslem Lebanese army soldiers, but most were empty.

The Syrians deployed their smaller tanks in the southern suburbs and the T-62s in the mountains. Rain made it difficult to move them.

Samir Geagea broke ranks with the political branch of his militia, the Ktaeb (Phalange party) by committing his forces to "defend the Christian areas to the last minute of our life." Only two days ago, Mr Roger Dib, secretary-general of both the party and the militia, said: "If our participation in the cabinet [of Dr Selim el Hoss] will save East Beirut, then we will participate."

If the Syrians do not make a military incursion into the territory held by Gen Aoun at the request of President Hrawi, the formal partition of Lebanon, into mainly Moslem areas controlled by Syrian troops and a small Christian enclave, appears likely.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday November 30 1989

INSIDE

Race across Europe

This week's agreement with Baltica Holdings of Denmark is just the latest step in the race by France's Suez group to build a huge network of insurance companies across Europe. In just four months, Suez has entered a series of deals that has turned its sleeping interest in French insurance company Groupe Victoire into the centre of a formidable grouping. But the breathless campaign has left observers wondering whether profits or size and power are behind it. Page 19

Hearts warmed by winter chill

The cold weather that has recently hit much of the western hemisphere has brought cheer to Dawson International's knitwear companies after two warm winters that have only increased the problems of selling woollens. The Scottish group has a strong presence at the top end of the market and has not suffered as badly as companies making cheaper products. But it has been forced to undergo far-reaching changes. James Buxton reports. Page 27

The 'green' solution

Industrialised countries are still the largest producers of the gas emissions blamed for the so-called greenhouse effect. But most of the increases in these emissions are produced by Third World countries as a result of economic and population growth. The answer to the problem, according to a World Bank project, is greater use by these nations of "green" natural gas. John Hunt reports. Page 28

Post-election nerves

Indian investors are nervous. The general election defeat of the Congress Party led by Mr Rajiv Gandhi (left) has created worries about the potential stability of a Janata Dal Government, which could only survive with support from other parties. The uncertainty has resulted in the continued decline of India's stock markets. R.C. Murthy reports. Page 40

More failings than achievements

The list of what the Organisation of Petroleum Exporting Countries failed to achieve at its ministerial conference this week in Vienna may look more impressive than the accomplishments. And the production agreement emerging from the meeting has all the appearances of a fudged solution that makes few Opec members really happy and creates the likelihood of continued cheating on production quotas that will put oil prices in danger. Yet perhaps even more important than these shortcomings is the fact that they are quickly becoming irrelevant. Page 28

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Beiersdorf	700	+	20
Goldschmidt	454	+	14
Holzmann (P)	1180	+	20
Varta	395.5	+	10
Falls			
Mannheimer	910	−	13
Nixdorf	296	−	24

NEW YORK ($)

Rises			
Freeport McMor	31	+	⅞
Philip Morris	42⅛	+	⅝
Falls			
Agency Rent	13	−	1⅛
Aristech Chem	21⅞	−	⅜
Gt Western Fin	18	−	1¼
Newmont Gold	47⅛	−	1⅝

New York prices at 12.30

PARIS (FFr)

Rises			
Industrielle	9480	+	280
Paris Rees	460.1	+	23.1
Union Immob	653	+	25
Falls			
Cie Bancaire	633	−	12
Cofimeg	419	−	8.5
La Henin	635	−	13

TOKYO (Yen)

Rises			
Arisawa Mfg	2600	+	240
Eagle Inds	1300	+	110
Lead	1150	+	80
Tokai Senko	1320	+	130
Falls			
Kyoei Tanker	1020	−	80
Nippon Koupu	1230	−	90

LONDON (Pence)

Rises				Nurdin P'cock	190	+	10
Barclays	544	+	14	Phoenix Timber	99	+	6
Britannic	573	+	24	Racal Telecom	399	+	11
Brit Aero	520	+	7	Refuge	704	+	17
Burmah	586	+	6	Sun Alliance	317	+	12
Cable & Wire	492	+	10	Tate & Lyle	280	+	13
Dawson Intl	211	+	8	**Falls**			
General Acc	1135	+	34	FKI	79	−	2
GRE	247	+	11	Foster (J)	119	−	31
Legal & Gen	393	+	7	Next	91½	−	4½
Lowndes Q'way	10	+	4¼	Savoy 'A'	770	−	65
Lucas	584	+	15				
Midland	357	+	9				

The very model of two modern major generals

Nikki Tait explains how a change of generations has resolved THF's long-running feud with Savoy

Parallels between the colourful, eight-year battle for control of Savoy Hotel, founded exactly a century ago by Richard D'Oyly Carte, and the Gilbert & Sullivan operettas which he staged, have been drawn many times. And so it was yesterday when, true to form, the struggle ended with all the resounding jollity of a Sullivan chorus between the main protagonists.

On the one hand there was the Old Etonian charmer Mr Giles Shepard, Savoy's managing director, and on the other, the genial Mr Rocco Forte, Trusthouse Forte's chief executive and son of one of the men who began the feud.

But, tellingly, the outbreak of peace in this long-running saga was not presented in the opulent surrounding of the Savoy itself – where Alfred Krupp reputedly ordered a fountain that gushed champagne and Winston Churchill held War Cabinet meetings with General Eisenhower.

Instead, the scene was set in the more sombre surroundings of Barings Brothers, the UK merchant bank and advisers to Savoy.

It was a setting, perhaps, indicative of the more sober note which has finally been injected into this long-running drama.

Although neither side was prepared to say that it took the initiative which led to yesterday's announcement, both could present eminently sensible reasons for the agreement, which gives THF two seats on the Savoy board but imposes a five-year standstill on further share acquisitions by the larger group.

"It's a commercial solution," commented Rocco Forte. "An economic victory against paying lawyers' fees," chipped in Mr Shepard, mindful of the impending court case between the two parties.

Some analysts were being blunter. "I think eventually it must come about that THF will take the whole lot," commented one. "It's only a question of time without the expense of litigation. This lets Savoy give in with grace."

Other commentators were more cautious: "That sort of question has to be much further in the future," suggested Mr Peter Hilliar at Barclays de Zoete Wedd.

Mr Shepard, for his part, said he did not think the Savoy was likely to be swallowed entirely by THF – there being justification for its separate identity as "a small and specialised company."

But whatever the future holds, questions about the details of how and why friendship had broken out were being cheerfully parried, and observers were left to make their own assumptions as to what really provoked the sea-change.

Clearly, an unprofitable impasse had developed between Savoy and its largest single shareholder, and legal costs were set to mount.

But equally critical, perhaps, is the fact that over the eight years during which the two companies have been scrapping, personalities – at least those centre-stage – have shifted.

The battle over the Savoy has often been described as struggle between the establishment, personified by the Savoy's former chairman, Sir Hugh Wontner, and new money.

The latter has appeared in various guises; Charles Clore, Harold Samuel and Victor Matthews of Trafalgar House, all toyed with takeover ambitions at one stage.

However, it eventually culminated in the form of Lord Forte, the Italian-born businessman who started life working in his father's cafe in Alloa and ended up creating Trusthouse Forte, one of the largest and most extensive hotels and catering groups in the world.

His ambition to own the Savoy was far fiercer than previous suitors. Indeed, Sir Hugh once declared: "Trying to take over the Savoy seems to be a passport to fame. With Forte, however, it has become an obsession."

It was in 1981 that Lord Forte, having mooted the idea many years earlier, made his hostile bid for the Savoy. He ended up with 69 per cent of the equity but – thanks to a dual share structure which was put in place in the 1950s in response the Clore/Samuel pressure – he gained only 42½ per cent of the votes.

The Savoy board controlled enough of the higher-voting "B" shares to give them over half the votes. There then began the lengthy legal battle – centring on attempts by THF to remove the voting rights from a critical block of shares – which has cost both sides dearly. The block in question carries 5.77 per cent of the votes and was issued in 1970 when the Savoy bought the Hotel Lancaster in Paris.

Such disenfranchisement, ran the argument, would raise THF's voting stake to almost 45 per cent, and cut the Savoy board's control to only 47 per cent. The case was due to come to court next year.

However, while the legal saga has rumbled on, Sir Hugh and Lord Forte – now in their eighties – have both stepped down as the main protagonists. Lord Forte, still chairman of THF, brought in his son, Rocco Forte, as chief executive in 1983; Sir Hugh retired from the Savoy board last year. Neither were present to announce yesterday's news, though both, according to yesterday's participants, had given their blessing.

Quite how this new friendship will develop was not a matter on which either party would be drawn yesterday.

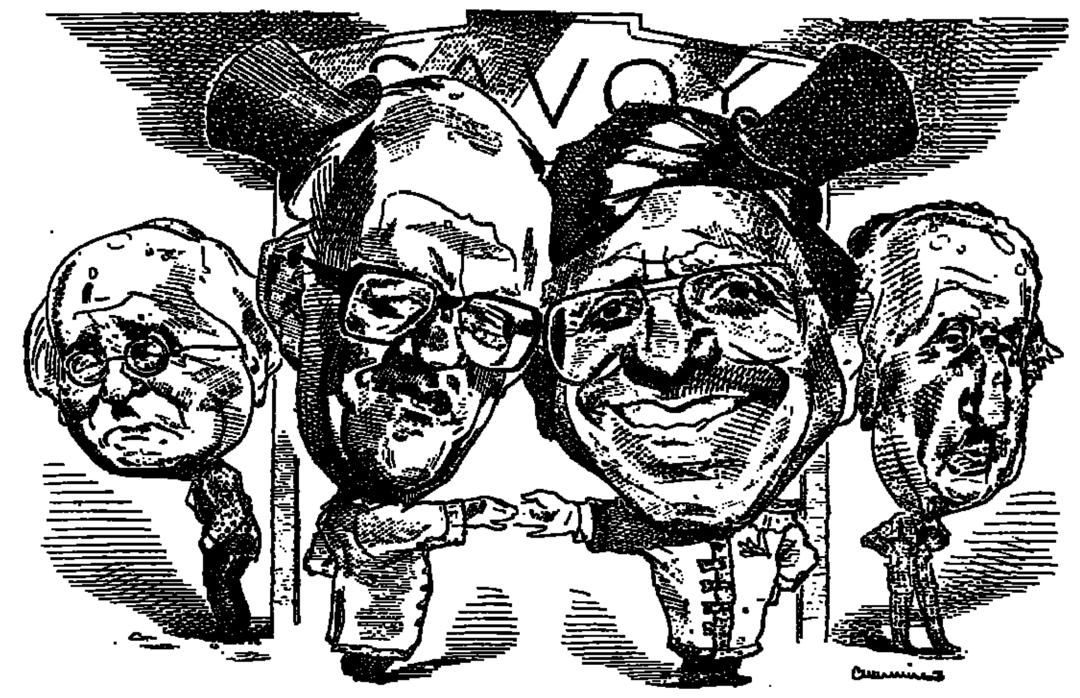
Aside from the two main board seats, THF will get two nominees on a new "strategic planning committee" – against four Savoy representatives – but little detail was being provided on precisely what this areas of business this would supervise.

Analysts, too, were left speculating whether, in time, the Savoy hotels might be drawn into the THF marketing network.

In best Gilbertian tradition, however, the conclusion seems broadly happy. Perhaps the only losers at the end of the day will be remaining Savoy shareholders – who saw an 8 per cent fall in the "A" share price yesterday, buoyed up by considerable bid speculation – and the lawyers.

Analysts see little justification for the heady share rating to continue on fundamental grounds, although some were suggesting that thoughts of cooperations leading eventually to some form of friendly takeover could limit the fall.

As for the legal profession, "They must be weeping into their glasses," remarked one commentator. "If you could sell solicitors' shares, this would be the day to do it."



Arriving at a commercial solution and leaving the lawyers to cry in their glasses: Giles Shepard (second left) and Rocco Forte, ended the long battle over the Savoy started by Sir Hugh Wontner and Lord Forte

Shares rally at Queensway

By Maggie Urry and Stephen Fidler in London

SHARES IN Lowndes Queensway, the loss-making furniture and carpet retailer, headed by Mr James Gulliver, rallied yesterday after Tuesday's collapse. But bankers said retailers heavily dependent on sales of expensive household goods, like Lowndes Queensway, would find it extremely difficult to secure new finance when the sector was so depressed.

The company – which only in August arranged a refinancing, including a rights issue – said on Tuesday that it was in discussions with its bankers about a fresh injection of funds and a restructuring of its finances.

The shares rose from 5¾p to 10p yesterday. Brokers suggested that buying was from people taking a gamble on a "penny stock".

Bankers said that the group's earlier refinancing was done on a "worst case" basis. The fact that Lowndes Queensway now needed further funds implied that its trading was significantly worse than its bankers had assumed just a few months ago.

Other heavily-borrowed retailers which have been forced to return to their bankers for fresh finance include MFI, the furniture retailer, and Magnet, the kitchen specialist. Magnet, in discussions with its bankers, said the news of Lowndes Queensway's fresh troubles had not affected its own refinancing.

Lowndes Queensway – formed by the £447m ($697m) leveraged takeover of Harris Queensway in August 1988 – has about 800 shops, and has 10 per cent of the UK furniture and carpet market.

However, analysts believe that these assets are worth less than the group's debts.

Brokers pointed out that the change in the retail climate – brought about by high interest rates and a squeeze on consumer spending – meant there would be few buyers interested in the Lowndes Queensway business.

Suppliers to Lowndes Queensway said yesterday that they were being paid for stock on the usual credit terms.

Great Universal Stores is the landlord of a number of the shops Lowndes Queensway operates, and said it was being paid rent promptly.

GUS, which had been a large investor in Harris Queensway, said its shareholding in Lowndes Queensway was under 5 per cent. It has been written down in the GUS accounts to £1, in line with GUS's normal procedure for such investments.

Hanson profits top £1bn for first time

By Nikki Tait in London

HANSON, the UK conglomerate, yesterday announced full-year pre-tax profits topping £1bn for the first time.

The pre-tax figure in the 12 months to end-September rose to £1.06bn ($1.65bn) from £880m in spite of reduced sales of £7bn, from £7.4bn, following disposals. At the fully-diluted earnings per share level there was a 16 per cent improvement to 18.4p, after a 23.6 per cent (23.2 per cent) tax charge. The final dividend, as forecast, is 6p a share, making 8.5p for the year, against 6.8p a year ago. The figures were in line with analysts' estimates and the shares eased ½p to 227½p.

The figures take in only two months-worth of profits from Consolidated Gold Fields, the mining investment house which Hanson acquired for £3.5bn this summer in Britain's largest completed takeover bid. Hanson said yesterday that Gold Fields's net contribution was around £15m.

Disposals of Gold Fields assets have already raised over £1bn, but Hanson declined to comment on whether further sales were either planned or under way.

It did, however, publish a year-end balance sheet, showing cash balances of £5.3bn. This was offset by bank loans and overdrafts of £4.46bn, plus debenture loans of £674m and convertible loans of £976m. The company added that gearing was expected to reduce sharply in the current year.

The high level of cash balances and the company's "substantial borrowing capacity," suggested Lord Hanson, left the conglomerate in a "commanding position to make further acquisitions when they become available at realistic prices."

Yesterday, Mr Martin Taylor, Hanson's deputy chairman, added that he believed there was now "more of a possibility" of a buyer's market developing in the wake of a decline in financially-engineered deals. These have been seen as one of the forces driving up acquisition prices.

Last year, Hanson, which has previously insisted that there was a "seller's market", raised around £1.4bn from asset sales.

At the operating profit level, Hanson saw its UK interests turn in £489m (£388m) on sales of £3.74bn (£3.39bn). In the US, there was a £387m (£298m) profit on turnover of £3.25bn (£2.64bn).

Businesses owned in the previous year but sold during 1988/9 contributed sales of £1.35bn to the 1987/88 figures and profits of £89m. However, Hanson benefitted from net interest and other income earned, less central expenses of £188m (£110m). Below the line, extraordinary income added another £288m (£445m).

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Tate & Lyle lifts profits to £200m as acquisitions reap benefits

By Clare Pearson in London

PRE-TAX PROFITS of Tate & Lyle rose by 67 per cent to £200.4m ($312.6m) during the year to the end of September, as the UK sweeteners group reaped the benefits from its purchase of Staley, the US corn syrup producer, and other acquisitions.

Included in the results were a full year's worth of Staley, against four months last time, 13 months of CST, the European starch producer which was consolidated in June last year, and a nine-month contribution from Amstar, the US cane sugar company which was bought for £191m in December last year.

Operating profits for the group were £271m, of which recently acquired companies contributed £171m. The ongoing businesses chipped in some £99m, although the underlying year-on-year growth was held back by research and development and disposal costs.

On a fully-diluted basis, earnings per share rose 21 per cent to 26.85p (22.15p). With the final payment raised to 6.1p, there is a 22 per cent increase to 9p (7.4p) in the dividend for the year.

Mr Neil Shaw, chairman, pointed to the improvement in the operating margin arising from a greater contribution from added-value products. Turnover was £3.36bn (£2.09bn).

Gearing rose from 105 to 159 per cent. However, Mr Paul Lewis, finance director, emphasised that interest cover was maintained at 3.9. He expected gearing to fall below 100 per cent by next September.

Tate & Lyle is in the process of selling off the automotive, industrial and construction products interests of Redpath, the Canadian sugar business where it purchased the 49.9 per cent minority interest at a cost of £139.5m in March. It raised £66m through the sale of a New York refinery.

The biggest disposal so far this year, raising £44m, has been the sale of Hugh Baird, the malting business, announced last week.

European operations were expanded during the year, with CST purchasing a further 43 per cent interest in Campo Ebro, the Spanish sweeteners and starches activities, and a small Dutch animal feed pellet dyeing concern being acquired.

Cane and beet sugar activities overall made £56.7m (£19.3m) profits before interest. Amstar made £34m during the nine months of its inclusion. At Redpath, refining margins stayed flat.

Cereals and starches made £137.8m (£44.9m). Staley more than doubled operating profits to £93m. The starch and speciality side rebounded strongly after a slow first quarter.

Sugar by-products and trading made £18.7m (£15.1m).

Lex, Page 16

ABB buys Global Engineering

By Nick Garnett in London

ASEA Brown Boveri, the European engineering group, yesterday purchased Global Engineering, a UK-based engineering consultancy specialising in oil and gas extraction. The purchase signals ABB's intention to become a large technical partner to the world's oil companies.

Global, which had sales last year of £33m ($52m), was bought by EB Consultants, the consultancy arm of EB Corporation, a Norwegian engineering company in which ABB has a 63 per cent stake. The cost of the acquisition, which will double EB Consultants' turnover, was not disclosed.

ABB announced earlier this month that it was acquiring Combustion Engineering of the US. As part of this purchase, still to be ratified, ABB will take control of Lummus, CE's engineering consultancy business specialising in petrochemical plant.

Earlier this year EB Consultants acquired Skeie, a Norwegian designer of drilling equipment for oil and gas. Also this year, EB Consultants tried but failed to form a partnership with TPG, the consultancy arm of Technip, the French engineering contractors.

Mr Jan Wennesland, executive vice president of EB Consultants, said ABB management was discussing how it could become a bigger supplier of design engineering and technology to the oil and gas industry.

"I think that with our strong financial base and the spirit within ABB we can really make a mark in this industry," Mr Wennesland said.

ABB, whose principal manufacturing includes power engineering equipment and rail transportation, also manufactures equipment for the oil and gas industry, including process control and electronic mechanisms.

Global employs 750 staff and has offices in 16 countries. Both Global and ABB design equipment for the oil and gas industries such as parts of offshore platforms and onshore gas landing terminals.

The new group is still smaller in design engineering and contracting than companies like Foster Wheeler and Brown & Root of the US.

But Mr Wennesland said this could change. "The oil and gas market is growing and ABB has not been as active in it as it could be. Global is a strategic acquisition to increase our possibilities in this field."

Global was founded by Mr Ray Olsen, an American who is still a big shareholder.

INTERNATIONAL CAPITAL MARKETS

Shearson Lehman unveils management shake-up

By Janet Bush in New York **and Stephen Fidler** in London

SHEARSON Lehman Hutton, the US securities house 61 per cent-owned by American Express, yesterday detailed an extensive management shake-up.

It said the shake-up was designed to focus efforts on internal consolidation and selective expansion in the more competitive environment it faces in the 1990s, rather than growth through acquisition as in the past.

Mr Peter Cohen, chairman and chief executive officer, announced a concentration of management responsibility in four core groups: capital markets, investment and merchant banking, private clients and, finally, subsidiary activities including asset management.

Shearson is expected to announce in a few days plans for a capital injection, partly a response to its being placed under a review for a possible downgrading by the US credit rating agencies.

It is thought likely that the finance will come either from American Express or the firm's other large shareholder, Nippon Life, which owns 13 per cent.

Mr *Jacques Gelardin*, head of Shearson's European operation will move from New York to London and become chairman of the new international management committee. He will also sit on the management committee, of which Mr Cohen will be chairman.

Mr Steven Spiegel, previously responsible for day-to-day operations in London, will assume responsibility for the European region.

Shearson employs 1,100 people in London and about 750 in the rest of Europe.

Two other committees covering Business Development and Investment will be established, bringing to four the number responsible for shaping policy and strategy.

Its senior policy-making committee – the 11-man Planning Group – is being disbanded. Instead, management control will be focused in each of the four core business groups which will report directly to Mr Cohen.

Shearson, which also recently announced that it was cutting 800 jobs from its payroll of 38,500, has had a difficult time since its merger with E.F. Hutton shortly after the October 1987 stock market crash. Earlier this month, it said it would cut commissions in its brokerage system for the first time in 15 years.

Bombardier set to purchase French rolling stock group

By William Dawkins in Paris

BOMBARDIER, the Canadian aircraft and transport equipment company, is continuing its European expansion with plans to buy ANF Industrie, France's second largest producer of railway rolling stock.

Negotiations on the deal, said to be worth around C$22m (US$18.9m), are expected to be finalised by the middle of next week. However ANF Industrie is a substantial company with an annual turnover averaging FFr1.3bn ($211m) over the past five years and 1,500 employees.

The group, founded in 1882, supplies shuttles for the Channel tunnel, trailers and bogeys for France's TGV express trains and engines for the *SNCF, the French railway* board. It is also active in Latin America, the Middle East and the US, and has supplied metros in Mexico, Santiago, Caracas and New York.

Bombardier, North America's leading maker of rolling stock and Canada's biggest aircraft producer, is already present in five European countries, where 12,500 of its 22,500 employees are based. This follows its acquisitions of Short Brothers, the formerly state-owned Northern Irish aircraft maker and Belgium-based BN *Constructions Ferroviaires et* Métalliques.

Robert Gibbens in Montreal adds: Bombardier has disappointed the market with flat earnings for the third quarter and nine months. But the group said it was "very happy" with the performance of Short Brothers, the former state-owned Northern Irish aircraft manufacturer it bought last June for C$60m.

Third-quarter earnings were C$18.7m or 27 cents a share, against C$18.9m or 27 cents a year earlier on sales which advanced to C$481m from C$420m. For the first nine months ended October 31, net profit was C$51.3m or 76 cents, against C$50.4m or 76 cents. Sales were C$1.25bn, against C$1.03bn.

After extraordinary items, per share earnings were 91 cents against C$1.07.

Mr Laurent Beaudoin, chairman, said the results were satisfactory in view of the negative impact of the higher Canadian dollar.

Bombardier still has a transport equipment order backlog of around C$1bn, plus an aerospace backlog of more than C$7bn over the next 15 years.

Black & Decker down

By James Buchan in New York

BLACK & DECKER, the US power tool and appliance company, suffered a loss for its fourth quarter to September as it struggled to absorb the Emhart plumbing equipment and carpentry business it bought for $2.8bn this year.

The loss of $29m in the quarter came in spite of a strong gain in Black & Decker's power tool and household appliance businesses. For the year Black & Decker managed a profit after tax of $30m or 51 cents a share, sharply down from the $97.1m or $1.65 a share in the year to September 1988.

Sales were up sharply due to the inclusion of Emhart's revenues, with a 79 per cent gain in the quarter to $1.06bn and a 40 per cent gain in the year to $3.19bn.

The $29m fourth-quarter loss of Black & Decker, based in Towson, Maryland, compared with net income of $23.4m or 40 cents a share in the September quarter of 1988. The loss was caused by interest payments on the debt Black & Decker took on to buy Emhart and by a $21m special charge to restructure interest-rate hedges on the debt.

Before interest and taxes, Black & Decker enjoyed a profit increase for the year of 70 per cent to $270.4m. Much of the gain came from Emhart's profits, but there was an 18 per cent increase from Black & Decker's original businesses.

Ahold surge puts profits up 39% to Fl 46.8m

By Laura Raun in Amsterdam

AHOLD, the biggest retail group in the Netherlands, reported a 39 per cent earnings surge in the third quarter of 1989 on higher sales and contributions from stakes in other companies.

Profits jumped to Fl 46.8m ($23m) in the 12 weeks ending October 8 from Fl 35.6m a year earlier as stakes in other companies contributed Fl 7.5m, 25 per cent more than a year earlier.

In a terse statement yesterday Ahold provided little detail of the course of business during the third quarter or first nine months. No mention was made of Ahold's bitter battle against Asko, the West German retailer which was summarily ousted from an alliance between Ahold, Argyll of Britain and Casino of France earlier this year.

Asko is legally contesting Ahold's plan to issue preferred stock as an anti-takeover defence on grounds that no threat was posed by its 13 per cent stake in Ahold and that technical irregularities were committed.

Per-share earnings rose 20 per cent to Fl 2.04 from Fl 1.70, adjusted for 1.76m shares placed with Argyll and Casino on November 2.

Ahold, Argyll and Casino have taken mutual stakes in each other to reflect the co-operative efforts aimed at joint purchasing, selling concepts and automation.

For this year, Ahold said it expected total 1989 net earnings to be "well above that of last year's level." Revenue increased 12 per cent to Fl 4.07bn from Fl 3.63bn, boosted by the stronger market position of the Albert Heijn grocery store chain and consolidation of Gall and Gall liquor stores in The Netherlands.

US operations, which account for about half of turnover, "contributed solidly to the improvement in results."

Debt hits Bank of Montreal

By Robert Gibbens in Montreal

BANK of Montreal, Canada's third largest chartered bank, posted a loss for the fourth quarter of fiscal 1989 after increasing provisions threefold for Third World debt.

For the full year, ended October 31, the bank made a net profit of C$51.1m (US$44m) or 4 cents a share, against C$583.3m or $4.89 a year earlier. Provisions for loan losses totalled C$1.18bn, against C$389m.

For the fourth quarter the bank recorded a loss of C$337.9m or C$3.19 a share, against a profit of C$214.8m or C$1.94 a year earlier. Loss provisions jumped to C$898m.

INTERNATIONAL APPOINTMENTS

NASD elects officers for governing board in 1990

THE NATIONAL Association of Securities Dealers, America's largest self regulatory organisation for the securities industry and which runs the NASDAQ over-the-counter market, the second biggest stock market in the US, has elected officers of the Board of Governors for 1990.

The incoming chairman will be Mr Kenneth Wessels, managing partner of Wessels Arnold & Henderson. Taking the position of vice chairman will be Mr Ronald Buesinger, senior vice president of A.G. Edwards & Sons.

Becoming one of the new Governors-at-Large (i.e. independent governors) will be Mr David Ruder, recently chairman of the Securities and Exchange Commission and now professor at Northwestern University School of Law.

The NASD has promoted to managing director, Europe, Mr Lynton Jones, who has headed NASDAQ International, NASD's European office, since its inception in 1987.

★★★

THE FEDERAL Reserve Bank of San Francisco has designated as board chairman and deputy chairman respectively for 1990 Mr Robert Erburu, chairman of Times Mirror, the Los Angeles-based media group, and Ms Carolyn Chambers, founder of Chambers Communications.

Mr Erburu was also appointed to a second three-year term as a director of the San Francisco Fed. Chambers Communications is a private company in Eugene, Oregon.

★★★

AUTOMATIC Data Processing, biggest independent computing services company in the US, said chairman and chief executive Mr Josh Weston has also assumed the posts of president and chief operating officer.

Mr William Turner resigned from those positions to become chairman and chief executive of three companies owned by Forstmann Little. Mr Turner will stay with Automatic Data as a board director.

★★★

ITT, the largest US conglomerate, named Andrew Dwyer a director, expanding the board to 14 members.

Mr Dwyer, 41, is chairman and president of JWP Inc, a technical services company providing computer and control systems.

Chairman of Paribas joins Comit board

BANCA Commerciale Italiana (Comit), Italy's second biggest state bank, has appointed Mr Michel François-Poncet, chairman of Cie Financière de Paribas, the French investment banking group, to its board.

Comit and Paribas forged a link-up during the summer by exchanging 2 per cent shareholdings in each other.

★★★

NOVO-NORDISK, the Danish biotechnology group which is a world leader in industrial enzymes and one of the biggest insulin producers, named Mr Lars Rebien Sorensen vice president of international operations at the company's Bioindustrial Group.

He was acting president of Bioindustrial Group's US subsidiary Novo Laboratories.

★★★

THE New York-based Russell Reynolds Associates, one of the world's leading international executive search firms, announced that Mr Robert G. Stone Jr has joined the board.

Mr Stone, 66, is board chairman of Kirby Exploration and executive committee chairman of Combustion Engineering.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Freeport-McMoran announces $1.5bn sale and restructure

By Anatole Kaletsky in New York

FREEPORT-MCMORAN, the New Orleans-based energy and natural resources group, yesterday announced a $1.5bn restructuring and asset sale programme.

The move will allow it to concentrate on the development of two recently-announced discoveries – the Main Pass sulphur deposit in the Gulf of Mexico and a copper and gold field in Irian Jaya, Indonesia.

The company's interests include fertiliser and chemical production in the US and Korea, gold mining in Nevada and Australia, and several energy businesses across North America. However, it said that in future it would focus on three core businesses: US energy exploration and production; copper and gold mining in Indonesia; and sulphur and phosphate fertiliser production.

All the company's remaining assets will be sold, to realise between $1.2bn and $1.5bn. About half this money was assured by a $220m agreement to sell Freeport-McMoran's Canadian subsidiary, Voyager Energy, $86m worth of small non-strategic energy disposals and a $254m joint-venture deal covering the company's geothermal properties, it said.

Mr James Moffett, chairman, said the rest of the proceeds would come mainly from two sources.

The company would sell Freeport-McMoran Gold, a 61 per cent-owned subsidiary which operates the Jerrit Canyon and Big Springs mines in Nevada. It would also dispose of its nitrogen fertiliser facilities in Arkansas and Oklahoma.

Smaller properties also sold or put on the block yesterday included Freeport-McMoran's 17 per cent interest in Poseidon Exploration of Australia and its 25 per cent interest in Namhae Chemical of Korea.

Mr Moffett said that about $600m of the sales proceeds would be used to reduce the company's debt, which stands at $1.8bn.

The remaining $600m to $900m would be used to fund development of the Main Pass and Irian Jaya projects.

Because it would reduce overheads by about $50m annually and cut the debt load to $1bn, the restructuring would ensure that Freeport-McMoran remained profitable even in a "draconian" pricing environment similar to that felt in 1986, Mr Moffett said.

Europeans buy 49% of Hungarian finance firm

By William Dullforce in Geneva

S.G. WARBURG Soditic, the Geneva-based finance company, has bought 49 per cent of a Hungarian offshore finance company in a joint venture with Girozentrale und Bank der Osterreichischen Sparkassen, Vienna. The amount paid was not disclosed.

Mr Maurice Dwek, S.G. Warburg Soditic's chairman, said the investment in International Investment Agency (IIA), Budapest, would be a starting point for increased activities both in Hungary and other East European countries.

IIA will concentrate on fee-producing transactions such as privatisations, flotations, mergers and acquisitions. It will also try to promote money and stock market operations.

Girozentrale founded IIA in 1987 with the Hungarian Foreign Trade Bank and Continental Industries Corporation. The Austrian bank, which owns 50 per cent of the share capital, is increasing its stake to 51 per cent, while S.G. Warburg Soditic will hold the remaining 49 per cent.

The two shareholders foresee making the share capital available to new Hungarian partners.

Through IIA, Girozentrale secured the mandate for privatising Tungsram, the Hungarian lighting company, in which General Electric of the US recently announced it was taking a majority stake for some $150m.

Last December S.G. Warburg Soditic lead-managed the first Swiss franc public bond issue for the National Bank of Hungary.

Baltica whets Suez's insurance appetite

George Graham on the French banking group's rapid push into a different sector

With its DKr4bn ($574m) agreement with Baltica Holdings of Denmark, France's Suez group has cleared another hurdle in its breakneck race to build a huge network of insurance companies across Europe.

Four months ago, Suez was a financial holding company whose main arms were investment banking, through Banque Indosuez, and industrial participations, through Société Générale de Belgique.

Since then, Suez's chairman, Mr Renaud de La Genière, has turned its sleeping interest in Groupe Victoire, the French private sector insurer, into the centre of a pan-European insurance group. Victoire's FFr12bn ($2bn) acquisition of Colonia, the second largest West German insurer, was under way before Suez embarked on its FFr27.4bn bid for Victoire and its holding company, Compagnie Industrielle.

The group has barely drawn breath since, announcing agreement to buy around 80 per cent of Nieuwe Rotterdam, the fifth largest Dutch insurer – a deal still subject to the approval of the Netherlands Government – and now its deal to take 23 per cent of Baltica, with the leading Danish insurer in turn acquiring stakes both in Suez itself and in Colonia-Victoire.

Suez is also understood to be negotiating another acquisition in another European country.

Suez is also inviting other insurers, principally Union des Assurances de Paris (UAP), France's largest insurance group, to join Baltica as minority shareholders in Colonia-Victoire.

This will include Colonia-Victoire's non-French operations and, eventually, the 23 per cent stake in Baltica. If UAP takes a 34 per cent stake in Colonia-Victoire, as appears likely, its membership of the club would change the complexion of the group being built.

The biggest question mark hangs over the profitability of the businesses.

Baltica is profitable, but Colonia's profit margins are lower than Victoire's high standards would like.

"I don't think the logic of this is profitability; it is more about size and power," comments Mr Michael Huttner, analyst at BNP Securities in London.

Renaud de La Genière: hungry for more insurance purchases

The pace of Suez's race to build up Victoire is impressive, but other French insurance companies have shared the same urge to make acquisitions outside their home market.

"Ironically, at the moment that European deregulation should theoretically make it possible to sell insurance without a physical presence, insurance companies are all in fact pushing to establish their local bases," comments Mr Jean-Pierre Felenbok, vice president of Bain & Compagnie, a management consultancy firm.

"In a medium time frame, and except for reinsurance and large commercial risks, the feeling is that insurance markets will remain mostly national," he adds. This implies that direct synergies will be hard to find.

Some insurers, such as Mr François Heilbronner of Groupe des Assurances Nationales (GAN), are reticent about the advantages of large foreign acquisitions.

"Our idea is to be present on each major insurance market with a presence that is big enough to be profitable but not too big to control. If we are talking with a big company, we prefer partnership to acquisition – better that than pay too much for a control that you cannot exert," Mr Heilbronner said.

In Victoire's case, the exercise of control may be particularly difficult. West German shareholding structures prevent it from exerting full power over Colonia.

At Nieuwe Rotterdam, meanwhile, two current shareholders who will stay in the company's capital, account for some 45 per cent of its premium income, which could limit the new majority shareholder's freedom of manoeuvre.

At Victoire, officials say that they do not intend trying to exert control in any abrupt way; Colonia's and Nieuwe Rotterdam's managements are to be closely associated to the new Colonia-Victoire holding company.

They feel that their new "club" can bring considerable advantages in three ways: by spreading risks over several different markets with divergent cycles; by bringing together new product ideas from each country; and by offering a bridgehead for potential new markets such as eastern Europe.

In the medium term, too, they say that the pooled resources of the group will provide a much stronger base for the future, if a major acquisition should present itself – perhaps in the Far East or the US.

It is clear that Suez's and Victoire's appetite for growth has not yet been sated.

Canada steel sector still declining

By Robert Gibbens in Montreal

THE CANADIAN steel market continues to decline in the current fourth quarter: Algoma is mothballing its number six blast furnace at Sault Ste Marie until at least next February.

Algoma's parent company Dofasco, Canada's biggest steelmaker, is suffering from reduced car production and a downturn in the construction markets.

Stelco, Canada's second-largest steelmaker, is rationalising further and reducing production rates.

Diversified steel products groups such as Ivaco, with much export business, are also seeing declining orders.

Earnings of most steelmakers and steel products groups were lower in the third quarter and their performance is expected to deteriorate in the final three months of 1989.

Analysts estimate the industry will earn considerably less in 1990, when most labour contracts come up for renegotiation.

● Sherritt Gordon, the nickel processor which has been the subject of takeover rumours for several years, has adopted a shareholder rights plan or "poison pill" defence against future bids. Shareholders vote on the plan next April.

There has been speculation that Trelleborg, the Swedish metals group, has acquired 9 per cent of Sherritt, which has no major shareholder. Sherritt had sales of C$545m (US$470m) in 1988.

Finacor statement

FINACOR, the French money market and broking group, states that it has no link of any kind with Finacor Anstalt, the Liechtenstein company partly owned by Mr Peter Norgren and accused by the US Securities and Exchange Commission of misusing insider information to buy shares in Combustion Engineering.

Suez development capital unit plans share buy-back

By William Dawkins in Paris

COMPAGNIE Financière de Suez, the French banking and industrial conglomerate, has offered to buy back half the shares in its development capital offshoot for FFr560m ($92m).

The purpose of this unusually large share buy-back in France is to give the development capital group, Compagnie d'Investissement Astorg, a better return on its more than FFr500m cash surplus. This is now invested in low yielding financial instruments, which give Astorg an average 6 per cent annual return on its cash pile, a fraction of the 20 per cent net return it could get by investing in its own shares, said an official.

Accordingly, Astorg is offering FFr340 per share for the 1.64m shares it wants to buy. This price is well above the year's market high of FFr293.

Suez is the main shareholder, with 35 per cent of Astorg's capital. Another 14 per cent is held by the West German venture capital company, TRV-Treuhand-Vermoegensverwaltung (Matuschka).

Neither of these plan to sell their holdings, so they would own most of the equity if the other shareholders, mainly French financial institutions, agreed to the buy-back.

Officials denied suggestions that Astorg preferred to buy its own shares rather than put the cash into new development capital deals because of a shortage of good investment opportunities.

They said the deal was intended to improve Astorg's return on capital and to give shareholders a chance to take their profits.

Little change at BHF-Bank in first 10 months

BERLINER Handels- und Frankfurter Bank (BHF-Bank) said partial operating profit was little changed in the first 10 months of 1989, with gains during the July-October period offseting a drop in the opening months, agencies report.

The bank said total operating profit was less than the ten-twelfths of the 1988 profit because of weaker earnings from bond trading.

Partial profit, which consists of interest and fee income less operating expenses, was DM125m ($70m), against DM124m in the first 10 months of 1988.

In line with West German banking practices, BHF-Bank does not provide a straight comparison for full operating profit with the year-earlier period and did not disclose detailed figures.

Dutch insurance group up 25% on non-life policies

By Laura Raun in Amsterdam

AEGON, the second largest Dutch insurance group, boosted earnings by 25 per cent in the first nine months of 1989 thanks mainly to a buoyant non-life division.

Aegon, the last of the Netherlands' top trio of insurers to report nine-month results, was closely in line with the other two. Nationale-Nederlanden, the largest, posted a 29 per cent jump in earnings, while Amev, number three, reported a 26 per cent surge.

Also like the others, Aegon predicted that full-year profits – including per share earnings – would rise strongly.

Net income climbed 25 per cent to Fl 346m ($171m) in the January-September period from Fl 277m in the year-earlier period.

Earnings per share increased by 18 per cent to Fl 8.80 from Fl 7.48.

Like Nat-Ned and Amev, Aegon benefited from non-life insurance business. Health and accident lines swung to a Fl 42m profit in the nine months of 1989 from a Fl 3m loss in the same period of 1988. Accident insurance profit soared to Fl 29m from Fl 4m.

Revenue advanced 17 per cent to Fl 9.09bn from Fl 7.75bn, fuelled by a considerable rise in US revenue.

● The life insurance arms of Amev and Meiji Mutual Life Insurance of Japan have agreed to provide each other's employee insurance cover in Europe and Japan.

The deal is the first Dutch agreement with a Japanese insurance company. Amev does not plan to set up any offices in Japan.

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Svenska Finans International is a finance group of a major AAA rated European Bank. We co-ordinate the provision of 'made to measure' asset based financing to third parties via an expanding network of six European offices. As a result of this growth and the increasing complexity of our European operations, we intend to create the new role of Corporate Controller reporting directly to the Director, Control and Administration.

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In particular:

- monitoring of local financial positions with functional responsibility towards local controllers;
- refine systems of control to ensure compliance with local statutory and EEC regulations, accounting and industry standards;
- filing of appropriate returns with local authorities and liaison with external advisors/auditors regarding statutory accounts, tax returns and other Company Secretary matters.

The successful candidate aged 28-35 years will probably be a chartered accountant with significant experience within the European sphere. In addition he/she will possess:

- experience in Intercompany charges/pricing
- a knowledge of the financial services/leasing sector gained either from within the industry or as an external auditor to financial services/leasing clients.
- a broad experience of European tax matters including double tax treaties, withholding taxes, trade taxes, VAT and corporate taxes.
- a knowledge about Capital Coverage/gearing requirement for Finance Companies within EEC.
- a commercial, work orientated approach combined with excellent communication skills.

Due to the international nature of the role, candidates who have the ability to read and speak German will be preferred. A knowledge of either Spanish or a Scandinavian language would also be useful.

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Mergers reshape forklift industry

Nick Garnett finds materials handling companies are on the move

A rash of mergers and takeovers in the highly competitive global lift truck business has been completely reshaping the industry. The stronger companies have suddenly got much bigger and many weaker ones have run for the protective cover of larger producers.

This raises the question of whether medium-sized companies survive in an industry where the biggest and toughest are still growing, able to spread the cost of technological development and generally establish a dominant position in world markets.

An obsession among managers in sectors as diverse as car making and electronics, this issue has also moved to centre-stage in the lift truck and materials handling industry.

Three such moves have taken place this year alone. The very sizable but debt-burdened Hyster of the US, the world's fourth biggest producer last year, has been purchased by Nacco, another American company making Yale forklifts.

Lansing in the UK, formerly Britain's biggest independent forklift producer, was bought by Linde of West Germany. This confirmed Linde as western Europe's biggest lift truck maker, adding Lansing's yearly turnover of £220m ($358.8m) to Linde's DM1.1bn ($616m) in materials handling.

This month, Procordia, the state-owned Swedish holding company decided to pull out of the lift truck business and has put its Kalmar Industries division up for sale. Kalmar, the world's twelfth-largest forklift supplier, is itself the product of a three-year acquisition spree, which saw it purchase Coventry Climax in the UK, the Allis-Chalmers lift truck business in the US, and the Larf and Irion warehouse systems companies in West Germany.

FORK LIFT TRUCKS
League based on sales turnover for last year

Rank	Name	Country
1	Balkancar	Bulgaria
2	Lansing-Linde	W.Germ
3	Hyster-Yale	US
4	Toyota	Japan
5	Jungheinrich	W.Germ
6	Komatsu	Japan
7	Clark	US
8	BT Rolatruc	Sweden
9	Crown	US
10	Nissan	Japan
11	TCM	Japan
12	Kalmar	Sweden
13	Mitsubishi	Japan
14	Boss	UK
15	Manitou	France

Source: Fordermittel Journal and Phillips and Co.

These events follow a long process, starting in the early 1980s, which has seen two French makers, Saxby and Fenwick purchased by non-French lift truck makers and the acquisition by Linde of Wagner, a German producer of automated guided vehicles.

At first glance, the reasons for such concentration are not clear. Demand for lift trucks worldwide, with sales of around 500,000 units per annum, has been very strong for the past two years, mainly as a result of industry re-investment and the recovery from the general recession of the early 1980s.

However, the industry is bogged down by a number of structural pressures which have helped to spark rationalisation. One is the soaring cost of modernising production plants. For example, Jungheinrich of West Germany, Europe's second biggest producer, is just coming to the end of a DM130m rebuilding and re-equipment programme at its main Hamburg site. Linde recently announced a redevelopment of Lansing's Basingstoke site in Britain at a cost of at least £30m and maybe as high as £50m.

The prospect of the open European market after 1992 has had an impact, creating pressures to form partnerships. At the same time, price competition from Japanese producers, which include Toyota, Komatsu, Nissan and TCM, remains fierce.

These pressures have resulted in a very different approach in Europe compared with the US. European forklift makers have tended to meet these challenges by moving into specialist lift trucks and warehousing systems, and by rationalising the industry through acquisitions.

By contrast, US manufacturers have responded with a wave of plant closures, fewer large mergers and takeovers but more co-operative deals with Far East producers. Caterpillar has one with Daewoo of South Korea, for example, and Clark has one with another Korean company, Samsung.

The issue of competitive strength for a medium sized manufacturer is underlined by the position of Lancer Boss, the UK's biggest independent producer following the sale of Lansing.

Lancer has been doing very well and last month announced a healthy 20 per cent increase in sales and profits. Its 116-model product line of trucks, from one tonne to 50 tonne lifting capacity, has been greatly strengthened in the past few years, particularly in warehouse vehicles operating in very narrow aisles (VNA). It has wrested market share from its competitors in West Germany and now has a quarter of the UK's VNA market.

Lancer itself has been in the acquisition game too. Over a long period it tried, but failed, to buy Bonser in the UK, Coventry Climax, and Saxby, but was pipped at the post on each occasion by Lansing and its then owner, Sir Emmanuel Kaye.

Lancer six years ago acquired the bankrupt family business of Steinbock of West Germany and the Spanish plant of the Fenwick group in 1987. Lancer's German operations now supply 45 per cent of all its lift trucks and over half of group turnover.

Sir Neville Bowman-Shaw, its chairman and founder, commented: "In this industry, a business like ours with yearly sales of £130m cannot be a long-term independent company. We will have to amalgamate with a company of our own size or bigger."

Lancer certainly needs to spend on its unimpressive assembly plant in the UK. Its turnover per employee is around £50,000 and pre-tax profits last year amounted to just £4.8m.

But how soon Lancer joins the big merger trail – if it ever does – is by no means clear because good and profitable medium-sized family companies have a number of conflicting feelings about such things.

Lancer and Sir Neville are independent by nature. Possible merger partners in the US are now looking more confident and perhaps less willing to go down this route.

At the same time, Sir Neville is critical of some of the recent mergers – apparently believing Lansing sold out to the Germans and questioning the rationale of the Hyster/Yale deal.

He believes any grouping that gets close to 50 per of any market is just asking to be attacked by everyone else.

Citic signs loan to fund satellite consortium

By Michael Marray in Hong Kong

PEKING-CONTROLLED China International Trust and Investment Corporation (Citic) yesterday signed a US$50m loan agreement through its wholly-owned subsidiary Shortridge to finance its share in the Asiasat-1 project, the private domestic telecommunications satellite.

The satellite is scheduled to be launched from a Chinese Long March rocket next April.

Citic's partners in the project are Britain's Cable and Wireless and Hutchison Satellite Systems, a subsidiary of Hong Kong-listed Hutchison Whampoa.

The signing indicates that the consortium remains confident the launch will go ahead as planned, despite moves in the US Congress to block the transfer to China of the satellite, designed and built by Hughes Aircraft, as part of sanctions against China.

The five-year loan facility, which was arranged by BT Asia, partly features a yen currency option which allows Citic to raise funds at a rate substantially below Libor.

The first tranche of US$40m incorporates a US$30m dual currency convertible loan, and has semi-annual repayments commencing after 30 months with interest fixed at 1/16 above Libor. Semi-annual repayments also start after 30 months for the second US$10m tranche, with interest of ¾ above Libor.

Among the nine banks joining the syndication are the Canadian Imperial Bank of Commerce, Westdeutsche Landesbank Girozentrale and the Hong Kong branch of Crédit Agricole.

Bond Media may issue capital to repay Packer

BOND MEDIA, part of the debt-laden Bond Corporation group, is considering issuing new capital to help meet its A$200m (US$157.2m) debt to Australian billionaire Mr Kerry Packer, Reuter reports.

Mr Warren Jones, Bond Media chairman, said after the company's annual meeting that the A$200m sum represented the redemption due on March 31 1990, of convertible preference shares in Bond Media issued to Mr Packer when he sold the Channel 9 television network to Mr Alan Bond for more than A$1bn in 1987.

The debt to Mr Packer would be replaced with quasi equity or debt, or the issue of new capital now under consideration, Mr Jones said.

Bond Media had negotiated for Mr Packer to leave part of the A$200m in the company for another year or two. "All I can say is that negotiations are proceeding," he said.

Negotiations were also continuing with National Australia Bank, the lead bank in a A$385m syndicated bank facility that is due for repayment on January 31 1990. "It would be my thought that by January 31 we would have negotiated replacement funding," Mr Jones added.

Mr Jones earlier told the meeting the company was negotiating with overseas investors to raise funds to meet obligations to Mr Packer and for the bank facility.

Mr Jones said US suppliers had agreed on substantial cuts to television programming costs, which would help earnings in the second half of Bond Media's current financial year.

Bond Media lost A$2.83m in the 1988-89 year but recently said September quarter revenue was up 32 per cent, though it gave no figures. Business in October had been strong.

"The immediate challenge is to reduce debt by asset sales, restructure our borrowings and cut programme costs which will enable us to generate the level of profits that allows payment of a dividend to shareholders," he said.

Bond Media planned to sell all its radio stations and was talking to a number of interested parties. Negotiations should be completed early next year, Mr Jones said.

First-half reverse at Air NZ

AIR NEW ZEALAND reported a fall in net profits for the six months to September 30 compared with the corresponding period last year, but the company said its longer term outlook was promising, according to Reuter.

Interim profits were NZ$19.09m (US$11.24m), down from NZ$ 25.74m in the same period last year.

The company is paying a 5 cent dividend. The total dividend for the previous year was 10 cents.

The company explained the results were in line with expectations, adding the September 1988 interim profit was unusual due to high traffic flows arising from Australian bi-centennial celebrations and the Brisbane world Expo.

Meanwhile, significant short-term profit growth would not be easy while the domestic air travel and cargo market downturns and recent cost increases continue to prevail, Air NZ said.

"There are no signs at all yet of the. . . economy upturn predicted with varying degrees of confidence by commentators whose expectations, it must be said, simply cannot be based on the experience of those exposed to the real trading environment," it said.

Meanwhile, the threat of Air New Zealand pilot strike action on December 1 and 4 has been temporarily averted.

The planned strike was a dispute over pay and working conditions.

The airline said the threat was withdrawn after talks late on Tuesday between the company and representatives of the New Zealand Airline Pilots' Association.

The pilots would stick by a promise not to strike during Christmas or the Commonwealth Games in January, Air NZ said. Negotiations would continue.

● Waitaki International, the New Zealand meat processor said Alliance Freezing Co (Southland) has bid NZ$0.60 cents per share for the company, according to Reuter.

The offer values Waitaki, in which Goodman Fielder Wattie and Fletcher Challenge each hold about 29 per cent, at NZ$100.1m.

Shares in Waitaki, which until earlier this year was New Zealand's biggest meat processor, last traded at 40 cents.

The offer does not apply to convertible notes issued by Waitaki, which will be covered by a separate offer.

The deal is part of a major restructuring of New Zealand's meat processing industry, which has been troubled by overcapacity.

INTERNATIONAL CAPITAL MARKETS

Japanese banks buck the trend

David Lascelles on how Tokyo's bankers are adapting to new rules

WESTERN bankers have been watching carefully to see whether the new international capital rules introduced last year would help brake the seemingly inexorable growth of Japanese banks.

But, so far, they seem to have had little impact. Japanese banks have been able to raise billions of yen worth of new equity – and at relatively cheap prices because of the high multiples at which their shares trade.

In fact, Japanese bankers' real preoccupations lie elsewhere, with a more domestic problem: the liberalisation of interest rates which is now in full swing. This is likely to have a much bigger impact on their profits, and even on the structure of the industry itself.

"This is a most important issue for bank managements," says Mr Nagao Hashimoto, manager of planning at the Federation of Bankers' Associations of Japan in Tokyo.

The process began more than a year ago when the Government embarked on its campaign to introduce a more realistic cost structure into the banking system.

First, it abolished the tax-exemption on *maruyu* savings accounts, which represented a major source of cheap funds for banks with large retail operations. According to the FBAJ, this has drained money out of the banking system at the rate of trillions of yen a month and sent it seeking more attractive homes, such as unit trusts.

At the same time, the Government began to reduce the minimum size of deposits which qualify for uncontrolled market rates. The new money market certificates which banks can offer currently have minimum denominations of Y3m ($21,000). This is due to fall to Y1m next April. After that, demand deposits will also be deregulated.

All together, these changes have forced up banks' cost of funds by substantial amounts.

Earlier this year the banks reacted to the changes by altering the way they price their loans.

They introduced a floating prime rate based on a formula which reflects their higher funding costs. But bankers say that in practice they have not been able to pass through the higher costs in full because of the intensity of competition in the loan market. The fact that Japanese interest rates have been edging up most of this year has not helped either.

Mr Toru Kusukawa, deputy president of Fuji Bank, the country's third largest bank, says the changes "have severely increased the pressure on banks." Banks have been able to disguise some of the effect on their profits so far, he says, but the true effect is bound to show through before long.

In fact, a good deal of the impact was clearly evident in the half-year results just announced for the main city banks.

The 12 leading banks showed profit increases of only 2.8 per cent – with the five largest all showing declines. The squeeze also hit the trust banks, with one of them, Yasuda, reporting a net loss of Y3.1bn due, it said, to the pressure on spreads.

One striking fact about the Japanese banking system is that, as a whole, it is "interest rate negative": it pays more for its money than it earns lending it out. The only reason that individual banks make a profit is that they earn fees and commissions, and make capital gains on their investments.

The Ministry of Finance, which is masterminding the changes, is deliberately trying to keep the pace gradual to cushion the impact, particularly on smaller regional banks who rely heavily on retail deposits. In fact, the smaller banks all strongly opposed the changes, but were "persuaded" to go along with them, according to a ministry official.

The big Japanese banks see two answers to the growing profits squeeze. One is to keep up the pressure for abolition of Article 65 of the Banking Law which prevents them from engaging in securities business. That would give them a new source of earnings and allow them to regain control of the deposits they have lost to the investment markets. The other is to attack the retail banking market with greater vigour because that is where lending margins are biggest.

The big city banks will move more aggressively into the regions, forcing regional banks into defensive action. Observers say that this is bound to produce a fresh wave of mergers among smaller banks as they try to become stronger.

Quite how severe the competition will become is a matter of considerable speculation. Although the ministry says it is not actively encouraging smaller banks to merge, it would like to see greater consolidation among the hundreds of smaller banks, mutuals and credit unions.

"There are bound to be more mergers, specially among similar banks, such as agricultural banks," predicts Mr Hashimoto at the FBAJ. One senior Tokyo banker fears an even more ominous outcome: a US-style thrift crisis brought on by reckless competition.

In practice, of course, it is most unlikely that the ministry would ever permit the banking industry to get that far. And some banks, like the long-term credit banks, are not directly affected. But these changes are part of a wider process – including the new capital requirements – which will force the Japanese banks to adjust to new realities.

Philippines finalises debt buy-back

THE PHILIPPINES has accepted tenders from 140 foreign commercial banks to buy back $1.312bn of debt at a 50 per cent discount, Reuter reports from Manila.

Mr Jose Fernandez, the central bank governor, said the date for repaying the debt remained January 3, 1990. Money for the debt buy-back, which would significantly alter the profile of Philippine commercial bank debt, would come from the International Monetary Fund, the World Bank, the Japanese Export-Import Bank and other official sources, he said

The Philippines had received tenders for the buy-back offer totalling $1.83bn in commercial debt from 156 foreign financial institutions. "The Government has accepted $1.312bn of these tenders from 140 financial institutions," he said.

The scheme would remove the debt of around 90 smaller banks, leaving a "hard core" of 50 with which the Philippines could do business in the future.

Daiwa is bullish over UK water

By Stefan Wagstyl in Tokyo

JAPANESE institutional investors are likely to buy all the UK water company shares they can get in the latest stage of the British Government's privatisation programme.

Mr Yoshio Maruyama, an executive of Daiwa Securities, the lead underwriter for the Japanese part of the issue, said: "We are optimistic because of the positive reaction of British investors."

The company could not start selling the stock until December 7, according to the rules of the offer, but the signs were that Japanese investors would buy. It was too early to measure demand from private individuals, who would be allocated 70 per cent of the stock.

But institutions, which will be allocated 30 per cent of the stock, had already indicated informally that they would take up their share, said Mr Maruyama, deputy general manager of Daiwa's international investment banking department.

Japanese brokers are responsible for distributing £480m worth of water company stock – 200,000 packages of 1,000 shares. Each package contains the shares of all the companies in proportion to their initial market capitalisation.

The main attraction for Japanese investors is the yield – at 8.55 per cent, it is substantially higher than the 5.5 per cent available on Japanese government bonds. The chief worry is not about the companies themselves but about the British economy and sterling.

Mr Maruyama said: "The currency looks very weak and the economy is not so bullish." However, these concerns should be offset by memories of the success of previous British government privatisation issues in Japan, including British Telecom and British Gas.

Daiwa and other underwriters will share a fee of about £5.75m, or 1.2 per cent.

Interpol investigates NZ margin default

New Zealand police have asked Interpol to carry out investigations in London, following last week's futures market problems, reported NZ$25m ($14.7m), Terry Hall writes from Wellington.

A spokesman for the Wellington fraud squad said the investigations followed a complaint and information supplied by one of the dealers, the Westpac Banking Corporation, which is rumoured to have lost NZ$17m.

Westpac said last week it had lost heavily due to the default of a third party who had not met the client's obligations to the futures exchange.

The other dealer, Jordan Sandman Futures, failed to meet the margin called and was suspended. They are believed to have lost at least NZ$6m.

A London company is believed to be the party behind the default on margin call on both Westpac and Jordan Sandman. Mr Moore said enquiries would focus on the activities of a particular individual. The Securities Commission said yesterday it was also following the matter and would not rule out the possibility of further action.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on November 29

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Austria 9⅝ 93	140	103⅛	103½	-0¼	+0⅛	8.43
B.F.C.E. 8⅝ 94	175	99⅝	99⅞	-0¼	0	8.42
B.F.C.E. 9¼ 95	150	103¼	103⅝	-0⅛	0	8.51
Brit. Tel. Fin. 9⅜ 98	250	103¾	104⅛	-0⅛	-0¼	8.71
Canada 9 96	1000	103½	104⅛	-0¼	-0⅛	8.19
C.C.C.E 9¼ 95	300	103	103½	-0⅛	0	8.44
C.N.C.A 9⅞ 93	150	102¼	102⅝	-0¼	-0⅛	8.61
Credit National 8¼ 93	200	99⅜	99¾	-0⅛	-0⅛	8.35
Credit National 7⅜ 92	100	97¾	98¼	0	0	8.29
Credit National 9½ 92	160	†102¼	102¾	-0⅛	-0⅛	8.53
Dai-Ichi Kan 9⅞ 92	150	102	102½	0	-0⅛	8.66
Denmark 8¼ 94	150	†98⅜	98⅞	-0⅛	-0⅛	8.60
E.E.C. 7 91	100	97⅜	97⅞	0	+0⅛	8.33
E.E.C. 10 93	140	104⅜	104¾	-0⅛	-0⅛	8.37
E.I.B. 8½ 99	150	99½	99⅞	-0⅛	-0¼	8.54
Eurofima 10⅛ 93	100	†104½	104⅞	-0⅛	-0⅛	8.43
Elec. De France 9 98	200	102⅝	103	-0⅛	0	8.49
Elec. De France 9½ 99	200	105¼	105½	-0⅛	-0¼	8.62
Finland 9 96	250	102½	102⅞	+0⅛	+0½	8.41
Finn.Exp.Cd. 8½ 92	200	100	100⅜	-0⅛	-0¼	8.40
Finn. Exp. Cd. 9⅛ 95	200	103½	104	0	+0¼	8.53
Ford Motor Credit 8 91	250	†99	99½	+0⅛	0	8.57
Gen.Elec.Cap.Corp. 9 93	500	†101⅝	102⅛	-0⅛	-0⅛	8.42
Gen.Elec.Cap.Crp.10 1/2 91	300	102⅛	102⅝	0	0	8.42
G.M.A.C. 9 96	300	100½	101⅛	-0⅛	-0⅛	8.83
Gen.Mtrs.Corp. 9⅛ 92	200	101⅛	101⅝	0	-0⅛	8.48
IBM Credit Corp. 8⅝ 92	400	100¼	100⅝	-0⅛	-0⅛	8.47
IBM Credit Corp. 8⅞ 91	250	100⅝	101	-0⅛	-0⅛	8.49
IBM Credit Corp. 9 92	250	101⅜	101⅞	-0⅛	-0⅛	8.25
IBM Credit Corp. 9½ 92	250	101¾	102¼	-0⅛	-0⅛	8.44
Italy 8½ 94	1500	100¼	100⅝	-0¼	+0⅛	8.40
Italy 9½ 95	1000	104⅛	104⅝	-0⅛	-0⅛	8.53
Italy 9⅝ 99	1000	105⅞	106⅛	-0⅜	-0¼	8.64
Itoh C. W/W 4⅜ 94	1000	†110¼	111¼	-0¼	-0¼	2.12
Japan Dev. Bank 10 96	200	107⅛	107½	-0⅛	+0⅛	8.48
KFW Intl. Fin. 9 94	300	102	102⅜	0	+0⅛	8.43
L.T.C.B.of Japan 9¼ 92	200	101⅜	101⅞	0	-0⅛	8.59
Nippon Tel.&Tel. 9⅜ 98	250	104⅛	104½	-0⅛	-0⅜	8.65
Norway 8⅞ 93	500	101⅛	101⅝	-0⅜	-0⅛	8.23
Portugal 8¾ 91	300	†99	99½	+0⅛	+0¼	8.81
Sumitomo Corp. W/W 4 93	1500	†124	125	0	+5	-2.46
Sweden 8¾ 96	200	101⅛	101½	-0⅜	-0⅜	8.47
Sweden 8½ 92	200	†99⅝	99⅞	0	-0⅛	8.63
Toyota 9⅛ 91	200	101⅝	102⅛	0	0	8.46
Toyota Mtr.Corp. W/W 4 93	1500	†106¼	107¼	0	+1¼	1.85
Victorian Rep 11⅛ 92	150	105½	106⅛	-0⅛	-0⅛	8.82
World Bank 8⅜ 99	1500	100⅞	101⅛	-0⅛	-0¼	8.41
World Bank 9 97	300	102¾	103⅛	-0¼	-0⅛	8.46
World Bank 9 93	300	102	102⅜	-0⅛	-0⅛	8.22
World Bank 9¼ 98	300	104⅜	104¾	+0⅛	0	8.51
World Bank 9⅝ 99	500	106½	106¾	-0⅛	+0⅛	8.54
World Bank 9¾ 96	300	106	106¼	-0⅛	-0⅛	8.46

Average price change... On day -0⅛ on week +0⅜

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	91⅛	92	+0⅛	-0¼	8.11
Austria 6¾ 99	750	93½	94¼	+0⅛	0	7.68
Bk.Frgn.Econ.USSR 7 96	750	†93½	94½	-0¼	-0½	8.24
Bank of Tokyo 5¾ 93	100	93¼	93¾	0	-0½	8.09
Commerzbank o/s. 5⅜ 93	300	93	93½	+0⅛	-0¼	7.90
Credit Foncier 6¾ 99	500	93⅜	93⅝	0	-0⅛	8.79
E.I.B. 6¼ 99	600	90⅞	91¼	0	0	7.69
E.I.B. 6½ 99	300	94¾	95¼	+0¼	+1½	7.29
E.I.B. 6⅝ 96	600	95¼	96⅛	+0¼	+0⅜	7.48
E.I.B. 6⅞ 95	300	96⅞	97¾	+0¼	+0⅞	7.46
Euro.Coal& Steel 5⅞ 97	175	89½	90¼	-0⅛	+0⅛	7.75
Eurofima 6¼ 96	100	91⅝	92¼	+0⅛	+0⅝	7.87
Elec De France 5¾ 97	300	90⅛	90⅞	0	+1	7.43
Hydro-Quebec 6¾ 99	300	93⅛	93⅞	0	-0¼	7.74
Japan Dev. Bk. 5⅝ 95	300	90⅞	91⅛	0	+0⅛	7.51
Japan Finance 5¾ 97	100	88⅝	89⅝	+0⅜	0	7.79
I.A.D.B. 7¼ 99	300	97	97⅞	+0⅛	0	7.64
Ireland 6½ 97	300	91⅛	91⅝	-0½	-0⅞	8.08
Ireland 7¼ 99	500	95¾	96⅝	+0⅛	+0⅛	7.83
Malaysia 6¼ 94	150	93⅝	94⅛	0	+2	7.84
Nat. West BK. PLC 6 98	300	88	88⅞	+0⅛	+0½	7.94
N.H.L. Finance 6¼ 95	200	†91¼	91¾	0	-1	8.10
Nippon Telg.&Tel. 6 95	400	92⅝	93⅝	+0⅛	0	6.58
Oesters. Kontbk. 5 93	300	92¼	92⅞	0	-0½	7.75
Portugal 5¾ 92	150	93⅝	94⅜	0	-1¾	8.32
Portugal 6⅝ 95	150	94⅛	95⅛	-0⅛	-0⅜	7.71
Privatbanken 5¼ 93	150	91⅞	92½	0	0	8.04
Royal Insurance 5½ 92	300	93⅜	94¼	0	-0⅜	8.38
Turkey 6½ 95	500	91⅝	92¼	-0⅜	+0¼	8.44
Union Bk.Finland 5½ 94	200	90⅝	91⅛	+0⅛	+0⅞	8.18
World Bank 6 98	500	88¾	89⅝	+0¼	+0¼	7.73
World BK. 6¼ 97	600	91⅛	91⅞	-0⅛	+0¼	8.55
World Bank 6¼ 99	600	93½	93⅞	+0⅛	+0⅛	7.68

Average price change... On day +0 on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5 96	150	†90½	91¼	0	0	6.74
Asfinag 5 03	100	†85	85¼	-2¼	-3¼	6.69
B.F.C.E. 4½ 98	200	†87¼	87½	-0¼	-0⅛	6.45
B.M.W.Fin.Neth. 5 13	150	†85½	86½	+0¼	+1¼	6.14
Britannia B/S. 4¼ 94	100	†86	88	0	-0¼	7.75
CIR. Int. W/W 3 93	125	†89	90	+0⅜	+0⅜	6.31
Credit Lyonnais 4¾ 00	100	†87¾	88	+1	+1⅜	6.36
E.I.B 4⅝ 98	150	†87½	88	0	+0⅛	6.53
Finn. Exp. Cd. 8¼ 92	75	†100½	100¾	+0⅜	0	7.98
Fletcher Chall. 4⅞ 98	150	†83½	84	+0⅛	-0¼	7.56
I.A.D.B. 6 2004	200	†95¾	96¼	-0¼	-0¼	6.42
Kobe City 4⅝ 98	150	†87	88	0	-0⅜	6.57
Leeds Perm. B/S. 4¼ 93	200	†89	89¼	-0⅜	-0⅜	7.91
Malaysia 5¼ 98	100	†84	84¼	0	-0⅜	7.85
Maxwell Comm.Crp. 5 95	150	†79	79¼	0	-0⅜	10.08
Nat.Bk. Hungary 5½ 94	75	†87¼	87½	-0⅜	-1⅛	8.69
Nationwide Ang.B/S. 4 93	200	†89¾	90	+0⅜	+2⅜	7.33
Prov. Newfoundland 5 03	150	†84½	84¾	-0⅛	-1⅜	6.72
Thailand 4⅝ 95	200	†87	88	+0½	-0¼	7.42
World Bank 5 03	150	†86½	87⅛	0	+0½	6.49

Average price change... On day +0 on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	99⅞	100⅛	+0⅛	0	6.09
Canada 5⅛ 93	80	98⅝	99⅛	0	0	5.96
Eurofima 5 1995	20	95⅜	95¾	0	0	5.99
E.I.B. 4⅞ 93	30	96⅜	96⅝	0	-0⅛	6.08
Ireland 5⅛ 93	30	96⅛	96⅞	0	0	6.24
Norway 5⅛ 95	50	96⅝	97	+0⅛	0	5.81
Sweden 4⅝ 93	50	95⅜	95⅞	+0⅛	+0⅛	6.01
World Bank 5⅛ 98	10	94⅝	95⅛	0	+0⅛	5.92
World Bank 7 94	20	103⅝	104⅛	0	-0⅛	5.96

Average price change... On day +0 on week +0

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10¼ 94 C$	150	96⅛	96⅞	-0⅛	-0⅜	11.18
Abbey Nat. 11⅝ 93 £	100	95⅝	96⅛	-0⅛	0	13.25
Aegon 7¾ 92 FL	100	99¾	100¼	0	+0¼	7.90
Alg. Bk. Ned. 5⅞ 93 FL	200	93	93½	0	+0¼	8.15
Austria 7⅛ 94 ECU	100	93¼	93⅝	0	-0¼	9.41
Bk.Nova Scot.14⅜ 90 A$	75	–	–	–	–	–
Barclays Aus.13½ 91 A$	100	–	–	–	–	–
Belgium 8⅛ 94 Ecu	150	95⅜	95⅞	0	+0¼	9.40
BP Capital 9¾ 93 £	100	91½	92	-0⅛	-0¼	12.87
British Airways 10 98 £	100	89	89½	-0¼	-0¼	12.11
Brit. Telecom 9½ 93 £	150	91⅛	91⅝	-0¼	-0¼	12.84
Comm.Bk.Aust. 12⅜ 93A$	100	†93⅛	93⅝	-0⅛	+0¼	15.12
Comm.Bk.Aus.13¾ 94 NZ$	60	†104	105	0	-0¼	12.39
Credit Foncier 9 96 Ecu	100	97⅞	98⅛	0	-0¼	9.37
CrLocalFrance 9¼ 92Ecu	100	99⅛	99⅝	-0⅛	-0¼	9.49
Deut.Bk.Aus. 13⅜ 93 A$	125	†95¾	96¼	-0⅜	0	14.76
Deutsche Bk.Fin. 15 94 A$	100	†102½	102⅞	-0⅜	+0½	14.08
E.I.B. 7 96 LFr	100	†95	96	0	-1½	7.94
E.I.B. 7⅛ 99 FL	150	94⅝	95⅛	0	+0⅝	7.89
E.I.B. 9 99 Ecu	150	98⅛	98⅝	+0⅛	-0¼	9.23
Eurofima 7⅝ 94 Ecu	100	93⅞	94⅜	-0⅛	-0¼	9.38
Export Dv.Crp.8⅞ 92Ecu	100	98⅛	98⅝	0	0	9.49
Fed.Bus.Dv.Bk. 9 94 Ecu	100	98⅛	98½	0	-0⅛	9.46
Fed.Bus.Dv.Bk.9¾ 92 C$	75	–	–	–	–	–
Fed.Bus.Dv.Bk.10½ 93C$	50	†98⅜	98⅞	0	-0½	10.94
Ferrv. Stato 7¾ 93 Ecu	100	94⅜	94⅞	0	+0¼	9.59
Ford Cr.Can.10¼ 93 C$	100	†98½	99	+0½	-0⅜	11.20
Ford Cred.Can.10⅞ 96C$	125	99	99½	-0⅛	-1¼	11.02
Ford Cred.Fund.10¾ 93£	60	93⅝	94⅛	-0⅛	0	12.81
G.M.A.C.Canada 11 3/4 94C$	100	101⅜	101⅞	-0¼	-1¼	11.22
Heineken 7⅝ 94 FL	150	101	101⅜	0	+0⅜	7.68
Hydro-Quebec 11 99 C$	400	101⅜	101⅝	-0⅛	-1	10.72
Lloyds Bank 10¼ 98 £	150	89⅞	90⅜	-0¼	0	12.18
Lloyds Bank 11⅝ 98 £	100	92½	93	-0¼	-0¼	12.76
Montreal Tst.10¾ 93 C$	100	†97¾	98¼	0	-0⅜	11.41
Nat. Aus. Bk. 14¾ 94A$	100	†98⅜	98⅞	-0½	-0⅛	15.15
New Zealand 9½ 93 £	100	90¼	90¾	-0⅛	0	13.07
O.E.K.B. 10¼ 99 C$	150	97¾	98⅜	-0¼	-1½	10.57
Privatbanken 7½ 94 LFr	500	–	–	–	–	–
Royal Bk.Scot.10⅝ 98 £	125	91⅞	92¼	-0¼	-0¼	12.23
Saskatchewan 9⅞ 91 C$	150	†97⅛	97⅝	0	-0¼	11.64
Saskatchewan 10¼ 93 C$	200	97⅞	98¼	0	-1¼	10.89
State Bk.NSW. 13⅞ 93A$	100	†95⅞	96⅜	-0¼	0	15.23
Sweden 7½ 93 Ecu	250	93½	94	+0⅛	-0¼	9.46
Sweden 15 94 A$	100	†101¾	102¼	-0⅜	-0¼	14.28
Toyota Mtr.Cr.11⅜ 92C$	150	100⅜	100⅞	0	-0¼	11.00
World Bank 7⅛ 99 FL	300	94¾	95⅛	+0¼	+0⅝	7.88
World Bank 13⅝ 92 A$	100	†99⅞	100⅜	-0⅜	+1	13.22
World Bank 14¼ 94 A$	75	100⅜	100⅞	-0⅛	+1⅛	14.00
Zentrspk. 13¼ 93 A$	75	†95⅞	96⅜	-0⅜	+0⅜	14.60

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.73	99.78	24/01	15.21
Bank of Greece 99 US	0¼	99.65	99.75	8/03	9¼
Belgium 91 US	0	100.15	100.25	21/02	8.81
Chelt.& Gloucester 94 £	.063	99.72	99.77	30/11	14.06
Credit Foncier 98 US	.063	99.91	100.01	20/04	8.31
Dresdner Finance 99 DM	.031	99.98	100.08	28/01	8.16
EEC 3 92 DM	0	100.02	100.12	22/02	6¾
Halifax BS 94 £	.1	100.05	100.10	9/02	15.16
Invt. in Industry 94 £	0⅛	99.95	100.05	24/11	14.06
Leeds Perm. B/S. 94 £	0⅛	100.04	100.09	15/01	15.37
Milk Mkt. Brd. 5 93 £	0⅛	99.78	99.83	29/12	14.94
New Zealand 5 97 £	.07	100.04	100.14	22/11	14
Northern Rock 92 £	0½	99.81	99.86	20/01	5¼
State Bk. Nsw. 98 US	.188	100.01	100.11	11/02	8.81
Woolwich Equit.BS. 93 £	0⅛	99.91	99.96	15/01	15.37
Woolwich 5 95 £	0⅛	99.89	99.94	21/11	14.06

Average price change... On day +0.00 on week +0.01

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62.	117⅞	118⅞	+0½	0.70
Amer. Brands 7¾ 02 US	†9/87	56.7	125	126	+1¼	-1.85
CBS. Inc. 5 02 US	4/87	200.	102¼	103¼	-0¼	3.46
Dai-Ichi Kan. 3⅞ 04 US	7/89	3486.	99½	100½	+0⅜	4.36
Primerica 5½ 02 US	4/87	66.75	74	75	0	70.71
Eng. China Clay 6¾ 03 £	9/88	4.8	85⅝	86⅛	+0¼	2.54
Fujitsu 3 99 US	5/84	1106.	212⅞	213⅝	+4⅛	0.40
Ladbroke 5½ 04 £	6/89	7.1	99¾	100¾	-0¼	144.60
Land Secs. 6¾ 02 £	6/87	6.72	84⅛	85⅛	+0⅜	13.96
Minolta Camera 2¼ 94DM	2/86	1804.	104⅞	106⅛	-1⅛	9.59
MCA Inc 5½ 02 US	9/87	69.62	105⅝	106⅝	+0⅞	7.66
Mitsubishi Bk. 3½ 04US	5/89	3266.	95½	96½	+1⅛	3.47
Next Plc 5¾ 03 £	11/87	4.3	94	95	-0¼	323.28
Nishi Nipp.Bk.2⅞ 03 US	4/88	804.	140⅛	141⅛	+0⅛	1.86
Omnicom Inc. 6 1/2% 04 US	10/89	28.	102½	103½	+0⅛	19.52
Osaka Tateal 2¾ 02 US	4/87	1310.	277½	278½	-1½	-1.80
Ranks Hovis 4½ 03 £	1/88	3.5	117	118	-0¼	0.06
Redland 7¼ 02 £	1/87	5.4	98½	99½	0	2.22
Saatchi&Saatchi 6¾ 03 £	†10/89	4.41	91	92	0	36.78
Silicon Graphics 8 04 US	6/89	23.18	115⅜	116⅜	+0⅜	8.76
Sumitomo Bank 3⅛ 04 US	2/89	3897.	87½	88½	+2⅜	6.83
Texas Inst. 2¾ 02 US	9/87	82.87	77⅛	78⅛	0	76.82
Utd.N'papers 8 04 £	10/89	8.77	112⅞	113⅝	+0⅝	106.57
W.R. Grace 6¼ 02 US	9/87	42.12	91	92	+0⅝	29.00

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Liffe's electronic contribution to 24-hour trading

By Deborah Hargreaves

AS THE futures industry moves towards the 24-hour trading day, the London International Financial Futures Exchange plans to launch its computerised trading system today which will add another 90 minutes to trading.

The system, called Automated Pit Trading, will provide an electronic addition to the exchange's open outcry day and will run initially from 4.30pm until 6pm.

APT has been developed over the past 18 months by Liffe's in-house technology team and attempts to represent the dynamics of open outcry pit trading on a screen. The system works like a kind of video game where traders are represented on-screen by "icons," symbols that highlight bids and offers in different colours.

The launch of APT comes amid a wave of globalisation in the futures industry that has put pressure on established exchanges to attract more international users. Many exchanges are experimenting with some sort of electronic marketplace in a bid to lengthen the trading day. Liffe will initially list its Euromark futures contract on APT with a plan to add Bund futures by mid-December.

Next year Liffe plans to operate the system in the early morning and phase in the rest of its contracts.

Although the exchange expects to develop specific products for trading on APT, it has no plans to replace open outcry with electronic trading.

Other exchanges are looking at their own screen trading initiatives and the Sydney Futures Exchange launches an order-matching system today which will extend trading into the Australian night.

Chicago's two major futures exchanges are discussing the merger of two screen systems they have developed for trading during the whole period that their open outcry floors are closed.

Liffe's system has cost $2.5m to develop and the exchange has so far sold 50 terminals to 41 of its members who account for the bulk of business. Members have to pay an installation fee of £15,000 as well as a monthly rental of £900.

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US bonds drift despite optimism on GNP

By Janet Bush in New York and Deborah Hargreaves in London

US TREASURY bonds continued to drift yesterday with no overall direction, showing little reaction to a modest upward revision in third quarter US GNP amid persistent confusion about monetary policy.

At mid-session, the Treasury's benchmark was quoted ⅛ point lower for a yield of 7.91 per cent, while short-dated maturities were unchanged to marginally lower.

Third-quarter GNP was revised upwards slightly to 2.7 per cent growth from the 2.5 per cent previously reported. The implicit price deflator was revised to a gain of 3.2 per cent from 2.9 per cent originally reported while the fixed weight index, another key indicator of inflation, was left unchanged at 2.9 per cent.

The only surprise in yesterday's figures was a large downward adjustment in inventories and a large boost in exports, suggesting a stronger economy in the third quarter than had appeared evident.

Much more important to the bond market is fourth quarter data including the latest US purchasing managers' report released tomorrow and November's employment data due for release on December 8.

Fed Funds opened at 9 per cent yesterday, under upward pressure on the last day of the two-week statement period. This prompted the US Federal Reserve to add liquidity to the banking system through overnight system repurchase agreements. The Southwest Bank of St Louis, which lowered its prime lending rate to 10 per cent from 10.5 per cent earlier this month in response to the Fed's easing to a 8¼ per cent Fed Funds rate from 8¾ per cent, yesterday quietly raised the rate back to 10.5 per cent.

No other major banks had followed its move and, with the Fed Funds target still apparently at 8½ per cent, it proved too expensive for the bank to hold out for lower interest rates to support its move.

■ UK gilts languished yesterday as the market dropped to its lowest level since just before the 1987 crash. In a market riddled with inflation fears and tracking a weak pound, the benchmark 11¾ per cent long gilt due 2003/07 fell by ⅛ to yield 10.44 per cent.

The gilts market was dominated yesterday as it has been for the past several weeks by institutional players with thin retail interest.

Many retail investors continue to sit on the sidelines watching sterling fall.

Although the market's interest remains fixed on a falling pound, which players fear the UK Government has abandoned, inflation is taking over as a key concern. A warning by Mr John Major, the Chancellor of the Exchequer, that the November retail price index could show a high rate of inflation, has drained any remaining enthusiasm.

Traders believe that retail interest in gilts is waiting for long gilts to drop by a further ¼ point to a yield of 10.5 per cent when some buying should return to the market. In a thin market, a few bargain-hunters are currently active, but major investors are still on the sidelines.

The pound slumped on the foreign exchange market where the Bank of England's trade-weighted index was down 0.3 at 86.0 and this continues to be a bond market worry.

■ On the continent, a stronger D-Mark pulled German Government bunds up by a ¼ point in early trading, but the market drifted back to close unchanged. The German market is seeing virtually no retail interest as investors still fear that the inflation rate will be boosted by the dramatic events in Eastern Europe. Bond investors still prefer the Dutch and French markets to German bunds, although activity continues to be slow across the European bond markets.

As interest in German bunds has dropped off, some buyers have moved into the French market, which, although it closed unchanged yesterday, has been slightly stronger this week.

GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	103-15	-7/32	11.99	11.83	11.45
		9.750	1/98	93-28	-11/32	10.90	10.81	10.60
		9.000	10/08	92-00	-17/32	9.94	9.84	9.67
US TREASURY *		8.000	8/99	100-01	-3/32	7.91	7.89	7.96
		8.125	8/19	102-10	-5/32	7.92	7.90	7.96
JAPAN	No 111	4.600	6/98	94.6177	+0.195	5.49	5.55	5.42
	No 2	5.700	3/07	102.0451	+0.271	5.47	5.55	5.31
GERMANY		6.750	6/99	95.5500	+0.050	7.41	7.39	7.11
FRANCE	BTAN	8.000	7/94	93.7810	-0.084	9.70	9.67	9.45
	OAT	8.125	5/99	93.4200	-0.080	9.18	9.13	8.96
CANADA *		9.500	10/98	98.3750	-0.250	9.77	9.69	9.51
NETHERLANDS		7.250	7/99	96.2300	+0.050	7.82	7.83	7.50
AUSTRALIA		12.000	7/99	94.1449	+0.105	13.08	13.36	13.53

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

OMF drops trading in stock index futures

By George Graham in Paris

OMF, the French electronics futures market set up to rival the main Matif futures exchange, is planning to abandon trading in stock index futures.

The stock index future, based on an index devised by the CCF bank, was OMF's first product, while the Matif was still in lengthy negotiations with the stock exchange on how to construct its own stock index contract.

In head-to-head battle, however, the Matif has steadily gained ground, benefiting from being the official market and from having the more widely recognised CAC index as its base. In addition, the 50 shares making up the OMF index were gradually adjusted to come closer in line with the 40 of the CAC index, thus reducing the opportunities for arbitrage between the two.

The two markets appear to have reached a sort of truce, agreeing not to compete directly with each other on the same products.

OMF will now concentrate on the four-year BTAN Treasury bill contract it trades through its screen-based system, leaving the stock index future to be traded by open outcry on the Matif floor.

● The Sydney Futures Exchange (SFE) will start after-hours screen trading on November 30, Reuter adds.

Initially only 10-year bond futures will be available on the SFE's electronic system, Sydney Computerised Overnight Market (Sycom), with trading hours from 5:45am GMT until 13:00pm GMT.

An SFE spokesman said that while it was likely the SFE would integrate Sycom with Globex, the automated after-hours transaction system developed by the Chicago Mercantile Exchange and Reuters Holdings, a final decision had not been made.

"After much study we have determined that this is the most cost-effective means of extending our trading hours, enabling us to satisfy global demand for our products," Mr Les Hosking, SFE chief executive, said.

AIBD postpones penalty for failure to use Trax

By Stephen Fidler, Euromarkets Correspondent

THE BOARD of the Association of International Bond Dealers has partly backed down on its intention to levy large penalties next month against UK members which failed to operate the body's Trax trade matching system.

The AIBD, the designated investment exchange in the UK for the Eurobond market and its self-regulatory organisation in the UK, proposed to start fining members failing to comply with Trax requirements at the start of December.

Following comments from members, fines proposed on some of the minor issues – for example, not complying to the 30-minute reporting rule – will not be payable until April 2. Fines will still be imposed if members are not linked to the Trax system by tomorrow's deadline.

The AIBD will use the time to review issues, including the morning reporting deadline and the possibility that fines would be stepped up for some contraventions. Some software changes are also possible.

Eurobond houses claimed that they had not been given sufficient time by the AIBD to operate the system. The AIBD said its move will "make the system even more user friendly and avoid penalising members which are making every effort to use the system properly."

Floating-rate notes show a resurgence

THE EUROBOND new issues market posted one of its quietest days of the year yesterday, reflecting difficult underlying conditions on the bond markets, Stephen Fidler writes.

That uncertainty in the fixed rate markets has been reflected by something of a resurgence in the floating-rate note market. Indeed, the only issue denominated in dollars was a subordinated floating-rate note issue for the London branch of Banco di Napoli, reopening a sector that has been moribund.

The notes, which count as lower case, tier 2 capital for the Italian bank, carry a margin over six-month Libor of 35 basis points, rising to 65 basis points after five years. On the assumption that the bond will be called after five years, the bond yields almost 45 basis points over Libor if priced at full fees. At the bid price, within fees, it would yield 40 basis points over. Goldman Sachs, the lead manager, said it had deliberately priced the issue at a significant premium to outstanding floaters in the secondary market, where comparable issues were yielding 30 basis points. It claimed the deal had sold reasonably well.

INTERNATIONAL BONDS

But, despite a perceived technical shortage, it was considered unlikely a larger deal would have found enough buyers.

In D-Marks, a Netherlands finance subsidiary of Feldmühle, the German printing and special papers group, brought a DM200m issue through Deutsche Bank. Carrying an 8 per cent coupon, a 101¼ issue price and a 10-year maturity, the bonds closed well inside fees at less 1⅝ bid, thanks in part to Swiss buying.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
D-MARKS						
Feldmuehle Finance(a)◆	200	8	101¼	1999	2½/1½	Deutsche Bank
Tosoh Corp.ф	200	(1⅞)	100	1994	2¼/1½	Deutsche Bank
US DOLLARS						
Banco di Napoli(London)(b)‡◆	100	(b)	100	1996	45/20bp	Goldman Sachs Int.
Q.P. Corp.(e)ф◆	150	3½	100	1994	2¼/1½	Daiwa Europe
YEN						
Soc.Nat.des Chemins de Fer◆	18bn	6¼	101⅛	1992	1⅜/⅞	Yamaichi Int. (Europe)
Skopbank(c)◆	13bn	6.7	101⅞	1995	1⅞/1¼	Merrill Lynch
CIBC◆	5bn	6.15	101.45	1994	1⅛/1	Sumitomo Trust Int.
SWISS FRANCS						
King Co.★★ф	35	1	100	1993	n/a	Banque Paribas (Suisse)
King Co.(d)★★§	35	¼	100	1994	n/a	Banque Paribas (Suisse)

★★Private placement. фWith equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Non-callable. b) Coupon pays in years 1-5: 35bp over 6-month Libor, 65bp over thereafter. Call at par on Dec.19 1994. c) One call at par after one year. d) Yield to put 3.313%. e) Coupon cut from 4⅞%.

Swiss underwriting syndicates merge

TWO OF Switzerland's small bond underwriting syndicates have merged to help them compete with the dominant big bank syndicate, Reuters reports from Zurich.

The Nordfinanz-Bank-Kreditbank and Handelsbank NatWest syndicates together underwrote just over 10 per cent of all foreign bonds here last year, but markedly less in 1989, Mr Kurt Zbinden of Handelsbank NatWest said.

This year the syndicate of big banks has raised its share to 86 per cent from 73 per cent in 1988. The big syndicate has come under fire from the Federal Banking Commission which is asking the finance minister for a ruling abolishing what the commission sees as restrictive practices.

The syndicate imposes a "loyalty duty" to prevent members from participating in deals outside the syndicate, and obliging them to ask permission to lead an issue.

Mr Zbinden noted small syndicates imposed no such restrictions upon members.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Wed Nov 29 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Tue Nov 28 Index No.	Mon Nov 27 Index No.	Fri Nov 24 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (205)	865.84	-	13.83	4.90	9.42	29.58	868.98	859.65	861.58	786.47
2 Building Materials (28)	1031.19	-	15.43	5.45	8.08	36.22	1031.44	1029.48	1034.83	972.39
3 Contracting, Construction (37)	1398.78	-0.1	17.83	3.57	7.36	54.19	1399.39	1388.98	1381.29	1496.66
4 Electricals (10)	2447.61	+0.8	11.15	5.08	11.27	83.50	2427.14	2391.27	2397.11	2353.78
5 Electronics (30)	1898.58	-0.5	9.46	3.74	13.59	51.54	1899.25	1896.09	1898.11	1719.09
6 Mechanical Engineering (53)	452.58	-0.2	12.44	5.03	9.88	15.76	453.38	448.18	449.57	414.57
8 Metals and Metal Forming (6)	453.53	+0.1	26.00	6.68	4.34	22.16	453.15	449.75	456.99	483.51
9 Motors (17)	368.25	+0.8	11.11	4.84	10.54	11.64	357.49	354.13	353.66	371.78
10 Other Industrial Materials (24)	1654.85	+0.1	10.18	4.60	11.38	54.33	1653.51	1615.65	1613.98	1372.85
21 CONSUMER GROUP (185)	1266.15	+0.4	8.87	3.56	14.15	31.74	1260.74	1248.80	1250.78	1083.04
22 Brewers and Distillers (23)	1436.43	+0.7	9.52	3.54	13.09	29.39	1425.98	1419.82	1418.63	1134.58
25 Food Manufacturing (20)	1158.99	+0.4	9.55	3.81	13.13	30.30	1199.95	1093.23	1096.38	927.65
26 Food Retailing (15)	2283.25	+0.4	9.39	3.26	14.07	49.99	2254.14	2223.86	2233.52	1826.33
27 Health and Household (14)	2596.62	+0.2	6.09	1.89	19.56	44.72	2591.31	2583.56	2537.90	1798.14
29 Leisure (35)	1564.86	+0.1	8.34	3.71	14.75	41.62	1560.70	1548.85	1555.37	1376.98
31 Packaging & Paper (14)	534.77	+0.2	12.52	5.40	10.17	18.57	536.60	532.84	533.15	535.39
32 Publishing & Printing (18)	3647.49	+0.1	8.68	4.51	15.84	119.28	3652.20	3618.34	3626.52	3345.46
34 Stores (32)	774.40	+0.1	11.20	4.80	11.63	25.96	772.44	764.73	769.54	718.87
35 Textiles (14)	583.38	+1.6	11.41	5.87	10.62	21.23	498.66	493.52	502.18	478.46
40 OTHER GROUPS (95)	1131.79	+0.7	10.65	4.61	11.90	31.95	1125.09	1115.79	1114.78	999.48
41 Agencies (17)	1515.26	+0.4	8.04	2.60	17.47	27.01	1512.38	1493.45	1490.68	1037.78
42 Chemicals (22)	1194.34	+0.4	12.72	5.35	9.25	47.50	1189.43	1186.82	1196.89	1099.66
43 Conglomerates (14)	1643.80	+0.2	10.57	5.22	11.16	39.29	1640.07	1626.54	1613.58	1266.51
45 Transport (13)	2168.73	+0.1	10.46	4.58	11.61	64.85	2156.37	2126.81	2119.55	2039.79
47 Telephone Networks (2)	1187.98	+1.2	11.47	4.63	11.34	22.38	1174.72	1187.15	1183.57	998.75
48 Miscellaneous (27)	1867.65	+1.2	9.39	4.08	12.81	64.78	1844.63	1858.56	1861.62	1186.22
49 INDUSTRIAL GROUP (485)	1157.34	+0.4	10.41	4.39	11.85	32.16	1152.47	1143.43	1134.57	988.75
51 Oil & Gas (15)	2238.42	-0.3	9.67	5.12	13.66	96.48	2244.31	2244.98	2232.97	1708.00
59 500 SHARE INDEX (500)	1229.53	+0.3	10.30	4.52	12.08	37.40	1225.66	1217.15	1217.27	1033.38
61 FINANCIAL GROUP (121)	808.29	+1.4	-	5.21	-	29.23	797.85	787.74	783.47	689.53
62 Banks (9)	841.87	+1.6	28.51	5.94	6.41	35.17	828.64	821.94	819.96	681.51
65 Insurance (Life) (8)	1360.93	+1.1	-	4.88	-	47.36	1345.78	1329.75	1313.88	926.86
66 Insurance (Composite) (7)	662.11	+2.2	-	5.66	-	28.34	673.53	661.31	655.32	506.28
67 Insurance (Brokers) (7)	1114.85	+0.3	6.76	5.64	19.69	47.89	1111.37	1105.95	1092.43	911.11
68 Merchant Banks (11)	449.47	+1.3	-	3.67	-	16.85	443.88	439.41	421.78	326.19
69 Property (49)	1154.23	+0.6	7.61	3.62	16.23	26.21	1158.98	1139.69	1144.72	1293.61
70 Other Financial (30)	316.11	+0.4	12.92	6.79	10.15	15.08	314.89	312.77	311.42	358.40
71 Investment Trusts (69)	1249.46	+0.4	-	2.88	-	24.78	1244.17	1237.79	1233.82	982.86
81 Mining Finance (2)	686.47	+1.1	10.87	3.93	10.33	22.25	677.46	676.38	677.46	566.59
91 Overseas Traders (7)	1435.32	+0.8	9.43	5.63	11.90	60.11	1425.38	1431.67	1487.11	1361.95
99 ALL-SHARE INDEX (698)	1129.22	+0.5	-	4.42	-	35.14	1123.52	1115.81	1114.80	933.45

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Nov 28	Nov 27	Nov 24	Nov 23	Nov 22	Year ago
FT-SE 100 SHARE INDEX ф	2255.6	+13.6	2262.6	2245.0	2242.0	2234.3	2222.4	2228.5	2192.3	1792.4

FIXED INTEREST

PRICE INDICES	Wed Nov 29	Day's change %	Tue Nov 28	xd adj. today	xd adj. 1989 to date
British Government					
1 Up to 5 years	116.61	-0.15	116.79	-	10.50
2 5-15 years	129.18	-0.31	129.58	-	11.60
3 Over 15 years	137.19	-0.51	137.89	-	12.71
4 Irredeemables	155.28	-0.61	156.23	-	13.42
5 All stocks	127.46	-0.28	127.82	-	11.52
Index-Linked					
6 Up to 5 years	199.76	-	199.76	-	2.79
7 Over 5 years	137.31	-0.04	137.37	-	3.21
8 All stocks	137.38	-0.04	137.43	-	3.15
9 Debentures & Loans	105.54	-0.61	106.19	-	10.15
10 Preference	85.24	-0.06	85.29	-	5.36

AVERAGE GROSS REDEMPTION YIELDS			Wed Nov 29	Tue Nov 28	Year ago (approx.)
British Government					
1	Low	5 years	10.33	10.18	10.39
2	Coupons	15 years	9.87	9.88	9.52
3		25 years	9.77	9.71	9.24
4	Medium	5 years	11.32	11.26	10.79
5	Coupons	15 years	10.27	10.22	9.75
6		25 years	9.90	9.84	9.27
7	High	5 years	11.47	11.40	10.95
8	Coupons	15 years	10.43	10.41	9.88
9		25 years	10.04	9.98	9.31
10	Irredeemables		9.84	9.77	8.92
Index-Linked					
11	Inflation rate 5%	Up to 5yrs	3.84	3.83	3.48
12	Inflation rate 5%	Over 5 yrs	3.73	3.73	3.70
13	Inflation rate 10%	Up to 5 yrs	2.96	2.95	2.29
14	Inflation rate 10%	Over 5 yrs	3.56	3.55	3.53
15	Debs & Loans	5 years	12.99	12.77	11.17
16		15 years	12.55	12.39	10.96
17		25 years	12.19	12.05	10.75
18	Preference		10.77	10.73	10.29

фOpening index 2245.0; 10 am 2258.2; 11 am 2259.7; Noon 2260.7; 1 pm 2261.7; 2 pm 2259.6; 3 pm 2255.4; 3.30 pm 2254.3; 4 pm 2256.1 (a) 1.29pm (b) 9.00am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	92	9
Corporations, Dominion and Foreign Bonds	2	17	23
Industrials	353	350	896
Financial and Properties	202	108	366
Oils	21	22	50
Plantations	2	0	7
Mines	25	53	84
Others	64	79	110
Totals	670	721	1545

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TRADITIONAL OPTIONS

● First Dealings Nov 6
● Last Dealings Dec 1
● Last Declarations Feb 22
● For settlement Mar 5

For rate indications see end of London Share Service

Calls in Ryan Hotels, Blenheim Exhibitions, Astra Hldgs., Rosehaugh, Tusker Res., Leisure Invs., British & Comm., Aviva Pet., Ferranti Intl. Signal. Put and call in London Securities.

LONDON TRADED OPTIONS

IT WAS a dull day for the London Traded Options Market yesterday when volume dwindled to only 27,837 contracts.

Most of this was concentrated in call options which traded 18,750 lots, while 9,087 puts changed hands.

The FT-SE 100 index option accounted a major part of the LTOM's volume yesterday when 12,293 contracts were traded. These were split almost evenly between call and put options with 5,912 calls traded and 6,381 puts.

The busiest series was the December 2300 call which saw a volume of 2,192 lots.

Some individual stocks saw a hefty turnover, with Hanson trading 3,407 contracts after the release of its earnings results.

Most of this activity was focused in call options which traded 2,479 while puts traded 928 lots.

Lonrho traded 1,047 contracts, most of them calls at 966 lots, while put options traded 81 contracts.

The December 283 call option was the busiest series, trading 763 contracts. Third on the most active list was British Airways which traded 748 contracts, almost all of them calls at 722 lots, while only 26 puts changed hands.

The busiest series was the January 200 call, at 260 lots.

In Guinness, the busiest series was the February 600 call, which traded 350 lots.

British Telecom was the fifth most active stock and traded 661 contracts with 511 calls changing hands and 150 puts.

The busiest series was the February 280 call which traded 420 contracts.

The open interest at LTOM is on the rise again and increased to 763,787 contracts yesterday with open interest in the FT-SE 100 index option higher at 148,475 lots.

Option		CALLS			PUTS		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE INDEX (*2257)

	2000	2050	2100	2150	2200	2250	2300	2350
CALLS								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PUTS								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

November 29 Total Contracts 27,837 Calls 18,750 Puts 9,087
FT-SE Index Calls 5,912 Puts 6,381
*Underlying security price. † Long dated expiry months.

UK COMPANY NEWS

Indosuez bows to rival for Morgan

By David Lascelles, Banking Editor

THE WAY was cleared for Deutsche Bank to complete its £950m agreed takeover of Morgan Grenfell yesterday when its rival dropped out of the bidding and the Bank of England gave the deal its blessing.

Banque Indosuez, which owned 14.9 per cent of Morgan, sold its shares to Deutsche, giving it a total of 28.9 per cent of the merchant bank. The sale was made at 550p, the price at which Deutsche has pitched its bid.

At the same time, Willis Faber, the insurance broker which had agreed to sell its 10 per cent stake to Indosuez, adjourned a special shareholders' meeting to reconsider its position in the light of the Deutsche bid. It is now expected to sell to the Germans.

Indosuez's original purchase of 14.9 per cent of Morgan a month ago triggered Deutsche's bid. Although the French banking group said it wanted a constructive relationship with Morgan, the merchant bank's management resisted its advances. This rebuff apparently convinced Indosuez that there was no point in pursuing the bid. But there was some consolation in the £30m profit it will make on its brief holding of the stake.

Indosuez said: "We offered Morgan a partnership, but it appears that they were mainly interested in personal profit."

Bass up to £529m but pours £34m into reorganisation

By Philip Rawstorne

BASS, the UK's leading brewer, yesterday turned in pre-tax profits of £529m for the year to end-September, but surprised the City with an exceptional charge of £34m to meet the costs of reorganising its brewing interests.

Profits, 18 per cent up on last year, included £30m net from the disposal of European hotels, and a further £31m from the sale of pubs, but reflected strong trading activity across all divisions.

Mr Ian Prosser, chairman, also reported that a property revaluation surplus of £1bn is to be credited to the balance sheet in the current year.

The unexpected £34m charge – set against the £64m exceptional surplus from the hotels disposal – clipped 14p off the shares but the market rallied later to close 1p up at £10.02.

Mr Prosser said that the reorganisation would focus management attention more closely on each of the separate business areas, brewing and pub retailing. "We expect this to be beneficial to future profits."

Earnings per share for the year rose by 22.6 per cent to 107.9p and a final dividend of 21.2p net is recommended, making a total of 28.2p net for the year, an increase of 20 per cent.

Operating profits of the core brewing and pubs business were 16.7 per cent higher at £350m, on turnover of £2.09bn. Bass, which spent £57m on advertising this year, consolidated its position as industry leader with a 3 per cent increase in beer sales volume and a 0.5 per cent growth in market share.

Trevor Humphries

Ian Prosser: the reorganisation will focus management attention more closely on each of the separate business areas

Sales of Carling Black Label and Tennents lagers showed 6-7 per cent growth; and the company claims a 30 per cent share of the low alcohol market. Operating margins improved to 16.7 per cent.

Hotels and restaurants returned operating profits of £75m, 44 per cent higher. Bass now has 310 hotels, owned, leased and franchised, including 115 in the UK. The occupancy rate during the year was 65-69 per cent.

The acquisition of the Holiday Inns business in North America will leave Bass with 70 per cent gearing on the balance sheet even after the £1bn revaluation of property assets.

Profits from leisure activities rose 25 per cent on turnover up 20 per cent. Coral racing increased its share of the UK betting market and has now acquired 369 outlets in Belgium with the acquisition of Tierce Franco-Belge.

Capital investment in all activities during the year totalled £762m. A further £608m has been allocated for the current year in addition to £96m already committed.

Ferrari talks with MBS break down

By Alan Cane

MERGER TALKS between Ferrari Holdings and MBS, the computing services companies, broke down unexpectedly yesterday after a sharp difference of opinion on financial disclosure.

Mr Jim Thatcher, managing director of MBS, said that Ferrari had refused key information which affected the valuation of the company. A condition of continuing the talks, he said, had been that Ferrari would disclose its profit forecast for 1990 to MBS' auditors, Touche Ross.

Yesterday Ferrari had changed its mind and was refusing to let the MBS auditors see the figures. "Without the opportunity to carry out due diligence we were not prepared to continue talks," Mr Thatcher said.

Mr Bob Woodland, managing director of Ferrari, said that he had been prepared to give MBS an overview of the company's financial position. MBS, however, a competitor in the same area of business, seemed to be looking for a much more profound account of Ferrari's business activities and he was not prepared to agree to that.

"I'm not going to teach them any tricks," he said. "They lost £18m in the last 18 months, not me."

Both sides agreed there was little prospect of restarting negotiations in the near future. The MBS share price closed at 20p, 3p down, while Ferrari was unchanged at 8½p.

BAT severs Mexican links with £52m joint venture sale

By Richard Johns in Mexico City

BRITISH AMERICAN Tobacco has ended a protracted dispute with its joint venture partner by selling out its share in Empresas La Moderna (EML), Mexico's leading cigarette manufacturer, for 215bn pesos (£52m or $81.5m).

The move ends a long and bitter dispute over management control and diversification policy dating back to early 1985.

In September BAT rejected as inadequate an offer equivalent to $71m made by Mr Alfonso Romo Garza, chairman of EML, who together with Mr Alejandro Garza Laguera and Mr Juan Romero Huxley own between 51 and 52 per cent of the company.

EML is capitalised at 564bn pesos and, with about 60 per cent of the Mexican national market together with some exports, has sales of some £92.6m.

Final settlement was reached with the signing of the agreement by Mr Romo and Mr Peter Hasell, BAT's regional director for Latin America, on behalf of Westminster American Tobacco (the BAT affiliate's local name).

In London, BAT described the conclusion of the dispute, which prompted BAT's lawyers to issue about 400 writs, as "a satisfactory end to an untidy saga and quite a lot happier than it might have been".

No immediate comment was available from EML.

Under existing agreements EML will continue to manufacture BAT's Kent and JPS brands. However they account for only 1.5 per cent of EML's sales, according to Mr Romo.

In 1985, and in the face of intense BAT opposition, EML bought the rights for all the brands of RJ Reynolds, the US cigarette manufacturer.

Following the settlement, the Mexican National Securities Commission was given the go-ahead to quote EML shares on the Mexican Stock Exchange. Dealings in the small minority of shares not owned by the three leading owners and BAT were suspended last year as a result of the minority partners' litigation against Mr Romo and his colleagues.

The placement on the market of the 'B' shares formerly owned by BAT will be done through the mechanism of a trust established with Banca Serfin.

Parkway misses mark at £8m

By Alice Rawsthorn

PARKWAY GROUP, the pre-press production company which was once one the stars of the the USM, announced yesterday that annual pre-tax profits had risen more slowly than the City had hoped – increasing from £4.81m to £8.12m.

Originally analysts had anticipated profits of £12m from Parkway, which has established an international presence in pre-press production through a series of acquisitions. But in August the company announced that profits would fall below expectations and analysts revised their forecasts to £9m.

The slowdown in the UK advertising industry meant that Parkway's eventual profits fell below expectations. Earnings per share slipped to 14p (15.9p) in the year to September 30. The board proposed a final dividend of 2.25p, making a total of 3.5p (3p). The shares, which have been buoyed by bid speculation, rose by 2p to 135p yesterday.

Parkway has undergone a series of senior management changes since Mr John McKimmie, its founder, resigned as chief executive in September. The extraordinary items of £3.32m included £1m in severance payments made to Mr McKimmie and four other executives who left during the year, including Mr David da Cunha, who was appointed UK managing director in June. Mr McKimmie has been succeeded as chief executive by Mr Peter Ross, who used to run the US business. The group is looking for a new chairman.

Parkway managed to boost turnover to £100.64m (£43.03m) and operating profits to £10.94m (£6.05m) during the year, mainly thanks to acquisitions in Europe and the US.

The UK companies suffered from the slowdown in the advertising industry and lower profits from the graphic supply company. Mr Ross said the UK advertising scene was "still quiet" and Parkway was "suffering alongside everyone else."

The disposal of the loss-making Blackburn Group represented £1.75m of the extraordinary items. A further £500,000 went on rationalisation. Mr Ross envisaged further rationalisation – probably in UK printing – this year.

The group is keen to expand its presence in the US and Europe – which contributed 46 per cent of sales and 24 per cent of profits last year – but Mr Ross said he was "aware of the limitations of the balance sheet."

Parkway had £34m of debt on assets of £12m at the year end, with interest cover of 3.9. Mr Ross said he hoped to reduce debt through disposals and asset sales.

DC Cook in £15m deal with Petrofina

DC COOK Holdings, the USM-quoted cars and property group, is to develop 16 sites for Petrofina, the Belgian oil company, in a deal worth about £15m.

Cook also announced the dismissal of Mr Martin Rapley, the managing director of Action 2000, the group's property arm.

Mr Derek Cook, chairman of Cook, said Mr Rapley was suspended last Friday and dismissed this week for "breach of contract."

He said that the company had paid no compensation to Mr Rapley and that as far as he was aware Mr Rapley had not initiated legal action against the company although it was contemplating legal action against him.

Barclays acquires Ravensbourne registrars

BARCLAYS BANK is expanding its registrar operations by acquiring Ravensbourne Registration Services, the UK's fourth largest registrar, with net assets at the end of last year of £2.1m.

The acquisition will nearly double the business of Barclays Registrars by increasing its corporate business from 4.4m to 6.4m shareholders and bringing the 1.8m National Trust membership register.

Earlier this year, Barclays bought Hill Samuel Registrars. Alex Tweedie, director of Barclays Global Securities Services said the two acquisitions would transform Barclays Registrars from a niche business to a volume player in the growing registrar market.

Gowrings expands with £4.8m vehicle leasing buy

Gowrings, the motor, leisure and investment group, has acquired Fleetlease Holdings for a maximum of £4.81m.

Fleetlease Holdings' sole asset, other than a small cash balance, is a 74 per cent stake in Fleetlease (UK), of which Gowrings owns the balance.

Gowrings will make an initial payment of £500,000 in cash and loan notes. The balance is payable in a series of profit-related payments over three years – one third in loan notes and two thirds in shares and convertible loan notes.

Fleetlease's business is contract hire and vehicle management. It owns 1,700 vehicles which it supplies to private corporations based mainly in London and the south-east.

Fleetlease Holdings made profits before tax of £10,000 in the year to October 1988 when its assets were worth £180,000.

Scantronic placing of 1.47m ordinary to raise £2.06m

Scantronic Holdings, the manufacturer of burglar alarms and medical alert systems, yesterday placed 1.47m new ordinary shares with institutions to raise £2.06m. The proceeds will be used to reduce borrowings and increase the company's flexibility for acquisitions in niche areas.

Edelman reduces Storehouse stake

Mr Asher Edelman, the US arbitrageur, has continued to reduce his holding in Storehouse, the retailer and holds 6.68 per cent of the capital down from 8 per cent late last month at the time of the last shareholding notification.

TI buys Swedish

TI Group has agreed to buy for cash the mechanical seals division of CA Clase of Gothenburg for about SKr29m (£2.9m). The division has been the Swedish distributor of the products of John Crane, the TI's world leader in mechanical seals, for fifty years.

UK COMPANY NEWS

Graeme Seabrook becomes chief executive as Ian Howe steps down

Kwik Save rises 33% to £73.2m

By Maggie Urry

KWIK SAVE, the limited line discount food retailer, reported a 32.7 per cent rise in annual pre-tax profits to £73.2m yesterday, at the upper end of brokers' expectations. The shares were unchanged at 573p.

The group also announced that Mr Ian Howe, its chairman and chief executive, was leaving to start his own business. Sir Timothy Harford, a non-executive director of the group since 1973, is to become chairman and that Mr Graeme Seabrook, managing director, will be chief executive.

Mr Seabrook had been seconded to Kwik Save from Dairy Farm, the Hong Kong-based food group which has a 25 per cent stake in Kwik Save, for a three year period but will now stay longer. Mr Seabrook said the move had no implications for Dairy Farm's investment.

Sales in the year to August 26, rose by 26.8 per cent to £1.2bn, excluding VAT. Higher interest rates helped the group, pushing interest received on its cash balances from £2.2m to £4.6m. Mr Howe said that high interest rates and inflation were encouraging shoppers to go to Kwik Save's "no non-sense" approach of offering branded goods at prices 5 to 10 per cent below those of the leading supermarket groups.

Mr Howe said that sales growth came from a combination of inflation (4.5 per cent), new stores (4.3 per cent), the acquisition of Victor Value in March (5.7 per cent) and volume growth in existing stores (12.7 per cent).

He said that 43 per cent of the shops, covering 53 per cent of group sales, had scanning tills installed by the year end, and the proportion was rising further. These enabled the group to stock a larger range of goods and so the shopper could buy a greater proportion of his or her requirements there. This had spurred the volume growth gains.

Mr Howe said there was "a lot more to come" from the introduction of scanning. The current year will also see a further 10 per cent increase in the group's sales area.

During the year capital expenditure totalled £54.3m (£25.9m) and is expected to be around £50m this year, barring another acquisition. Victor Value cost £15.75m of which £8.75m was goodwill, written off against reserves. Mr Howe said the purchase had "washed its face" in profit terms. Cash at the year end was £39.7m (£43.8m).

Earnings per share rose by 35.6 per cent to 31.6p, and a proposed 35.2 per cent increase to 7.3p in the final dividend will take the total to 10.5p (7.8p) up 34.6 per cent.

● COMMENT

Kwik Save's profits surge has been impressive as it begins to get the benefits from scanning. There is every reason to expect more to come, and with a fast rate of expansion too profits should jump again this year. The strong balance sheet is enviable in these tough times. Mr Seabrook appears the man to take Kwik Save onwards, though it now seems ever less likely that Dairy Farm will bid. Without any bid support, the shares can justify their level on a prospective p/e of 13.4 if the group makes £95m pre-tax this year.

Tony Andrews

Ian Howe (right), Kwik Save's outgoing chief, joined the group in 1963, when he was 23, and it was called Value Foods. He was one of the triumvirate, with Mr Albert Gubay and Mr Michael Weeks, who launched the Kwik Save concept in 1965. Mr Gubay is reputedly enjoying his fortune in the Isle of Man, while Mr Weeks, who was known in the industry for his dark glasses and white suits, has moved to Spain and plays golf. Eschewing the easy life, Mr Howe, now 49, is setting up his own company, McKinlay Strategic Systems, with his son, Andrew. Father and son share the middle name of McKinlay. This will allow Mr Howe to return to his first interest of designing computer systems for retailers. Kwik Save will be a major client. Mr Graeme Seabrook (left), aged 50, the new chief executive, is an Australian who worked for 30 years for Coles Myer, the large Australian retail group. He joined Dairy Farm in 1988 and was immediately seconded to Kwik Save.

Overseas tax limits earnings as Siebe rises 20% to £80.8m

By John Ridding

SIEBE, the controls, engineering and safety equipment group, continued its steady growth in the six months to the end of September, with pre-tax profits ahead by 20 per cent at £80.8m.

Mr Barrie Stephens, chairman, said that the results reflected significant organic growth and first-time contributions from two acquisitions. Gestra, the German valve and actuator manufacturer, and Paragon, the US controls manufacturer, made £2.4m and £300,000 respectively.

Earnings per share, which rose to 24.4p (21.7p), increased at a slower rate than profits because of a sharp rise in overseas tax payments from £19.2m to £25.1m. This reflected the absence of tax losses compared with previous years and the increased proportion of overseas sales.

Strong cash flow generation helped reduce gearing to about 35 per cent at the end of the period, compared with more than 100 per cent in 1987. Mr Stephens said that he was "more than comfortable with this level" and that it allowed the interim dividend to be raised by almost 50 per cent, from 3.375p to 5p.

As usual, the principal stimulus at the operating level was the controls division, which raised profits by 24 per cent to £48m. This was achieved despite a fall in sales of controls components for consumer products in the UK. These were hit by the downturn in high-street expenditure.

The controls division represented about 58 per cent of sales, which for the group as a whole increased from £569.9m to £663.2m.

The compressed air division raised profits by 12 per cent to £12m and the specialist engineering businesses improved profits by 13 per cent to £8m. Siebe's reduced emphasis on lower-margin safety products meant that the safety and life support division raised profits by 12 per cent to £13m on sales only slightly ahead of last year.

In geographical terms, Western Europe, excluding the UK, saw the strongest growth and increased sales from £87.3m to £183m. The US remained the largest single market with about 45 per cent of turnover.

Siebe has established a manufacturing base in Poland which provides a low-cost base and a good supply of trained engineers. Mr Stephens said the group would invest significantly there.

● COMMENT

It is hard to see what else Siebe needs to do to impress the market. A hefty dividend increase, a thirteen-fold increase in interim profits since 1984 and an optimistic company statement left the shares down 1p at 453p and on a prospective multiple of just over 8 assuming pre-tax profits of £178m for the full year. Part of the explanation lies in the low visibility of its order book, which has a much lower ratio of orders to sales than other, heavier engineers. In addition, there is concern that the slowdown in the US and UK economies will adversely affect demand for Siebe's automotive and white goods controls. But there is little sign of problems yet and the diversity of Siebe's product range and its broad geographical exposure provide protection. In particular, more than 35 per cent of sales now come from the strong Japanese and continental European markets. At the least, Siebe's long-term prospects suggest the shares are looking reasonable value.

Acquisitions help Porter Chadburn to £3.3m

By Peter Berlin

RECENT ACQUISITIONS helped lift pre-tax profits at Porter Chadburn, the upholstery, packaging and consumer leisure products group, 92 per cent to £3.3m for the six months to September against £1.7m in the same period in 1988.

Turnover for the group was 68 per cent higher at £46.7m (£27.7m). Compared with 1988 on a like-for-like basis the rise in profits was 23 per cent.

The group made an £11.8m rights issue in April when it bought Lord Label, a US supplier of self-adhesive labels. Lord, which represents 25 per cent of group turnover, contributed to five of the six months in the period.

During that time the Porter changed Lord's financial management, and, said Mr Raymond Dinkin, chairman and chief executive of Porter, "beefed up the marketing."

Mr Dinkin said he found the US market attractive. "It is worth $2bn, is growing rapidly and is highly fragmented."

In November Porter acquired Compular, UK maker of labelling machinery, for £250,000.

The consumer leisure products division which sells licensed sports wear, radio controlled cars and fishing equipment and accounts for 35 per cent of group turnover, continued to perform strongly in spite of the consumer downturn.

Sales of Head sports equipment, clothing and bags by Porter's subsidiary Tasco were particularly strong said Mr Dinkin. He said he expects Gola to make a growing contribution with the introduction of sportswear lines.

East Anglian Rod had a poor summer because of the drought. At the end of the period Porter bought Fleckhope, a fishing equipment distributor and wholesaler, for £7.4m. It now holds at least 20 per cent of the UK angling market.

Mr Dinkin said he was pleased with the performance of the group's upholstery distribution, 18 per cent of turnover, which had increased its market share in a depressed market.

Gearing in the group is 14 per cent and all its borrowings are in the US. The interim dividend is 0.725p up 20.8 per cent from 1988 and earnings per share are 4.38p against 3.35p restated to take into account the rights issue.

● COMMENT

Mr Dinkin and his team enhanced their reputation for cleverness with the Lord Label acquisition giving Porter Chadburn a powerful US arm just as the UK consumer market was turning down. Further spending in the consumer market would not be a surprise in the coming months. Mr Dinkin sounded a cautious note this time, warning that he expects growth in the groups leisure products division to slow in 1990. The division has proved highly resistant to the downturn in consumer spending partly because of the group's skill at adding brands and lines. The latest example is Gola which could make a significant contribution in the next few months. The real worry must be upholstery materials which, with the furniture market in its current miserable state, will do well to stand still. The recent acquisition Compular could also act as a drain. These worries have helped restrain City analysts and hold profit forecasts for the year at £7.5m which would give a p/e of 10.5.

Bowater Industries sells 2.9% De La Rue stake

By Andrew Hill

BOWATER INDUSTRIES, the packaging and industrial products group, has sold a 2.9 per cent stake in De La Rue, the security printer.

The stake was built up by Norton Opax, the specialist print and packaging group, during its short-lived bid for De La Rue this summer. Bowater eventually won Norton itself after launching a hostile offer from its platform of a 29.99 per cent holding in the company.

De La Rue's principal shareholder is Mr Robert Maxwell, who owns or controls about 22 per cent of the group.

Bowater said it did not know who had bought the De La Rue stake or whether it had gone to a single buyer. The shares were sold at 317p each, against yesterday's market price of 325p, down 2p, raising £13m.

Hazlewood Foods spends £6m on Dutch purchases

HAZLEWOOD FOODS, food manufacturer, has bought two Dutch seafood processing companies for a maximum total of about £6m.

For Vishandel, which fillets, processes and markets fresh fish, Hazlewood will pay an initial Fl 6.5m (£2.07m), of which Fl 500,000 has been paid into escrow until June next year to cover any claims by Hazlewood against the vendors. There will be a further profit-related of up to Fl 3m.

Vishandel made pre-tax profits of Fl 750,000 on turnover of Fl 18.2m in the year to December 1988 when its net assets were Fl 1.5m. Its principal customers are in Switzerland.

Van Der Endt De Jager is a cockle fisher and mussel processor for which Hazlewood's is paying an initial Fl 9.24m cash, of which Fl 1.1m will be placed in escrow, with a further profit-related payment.

Jager made pre-tax profits of Fl 1.6m on turnover of Fl 6.2m last year and had assets of Fl 3.9m.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Allen §	int	1.6	Jan 23	-	-	-
Bass	fin	21.2	-	18.1	26.2	23.5
Dawson Intl	int	2.9	-	2.65	-	8.6
FKI	int	2†	-	1	-	4.5
Foster (John)	int	1.75	Jan 12	1.75	-	5.5
Kwik Save	fin	7.3	-	5.4	10.5	7.8
Parkway §	fin	2.25	Apr 2	2	3.5	3
Porter Chadburn	int	0.725†	Apr 6	0.6	-	1.8
Select Appts §	int	1.2†	Jan 22	1.2	-	3.5
Siebe	int	5	Mar 30	3.375	-	11.375
Tate & Lyle	fin	6.1	-	4.875	9	7.375
Trevian §	int	1.45	-	1.25	-	3
Trimoco	int	0.6	Jan 31	0.6	-	1.4
Vosper Thorny	int	3.125	Jan 23	2.75	-	8.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Apricot Computers, Aviva Petroleum, Castings, Erskine House, Isoped Intl, Jarvis Porter, Mansfield Brewery, Marine Dev, Osbourne & Little, Penny & Giles, Scapa Grp, Stoddard Sekers, United Inds, Vistec.

Finals- Bennett & Fountain, Lyons Irish Hldgs, MEPC, Royal Bank of Scotland, United Drug.

FUTURE DATES

Interims-

Avesco	Dec. 6
Bogod	Dec. 5
Graig Shipping	Dec. 4
JLI Grp	Dec. 11
Saltire Insurance Inv	Dec. 6
Whitecroft	Dec. 11
Finals-	
GWR Grp	Dec. 6
Hardanger Props	Dec. 5
Trafalgar House	Dec. 4

UK COMPANY NEWS

FKI tempers rise to £35m with second-half warning

By Andrew Hill

PROFITS at FKI, the electrical products group which was demerged from FKI Babcock this summer, rose from £31.8m to £35.4m before tax in the six months to September 29.

Earnings per share increased from 5.23p to 6.31p and the company has doubled its interim dividend to 2p, in an attempt to reduce the disparity between the two payments.

Babcock International, the engineering business, was floated off in July. That left FKI's electrical products activities, and Babcock Industries, which is involved in the manufacture of hardware, automotive components, material handling and process control equipment, mainly in the US.

FKI also made a formal announcement of half-year figures which included four-and-a-half months before Babcock International was spun off, although it stressed that these figures were unrepresentative.

Profits for all activities in that period were £46.8m before tax, compared with £50.7m in the first half of 1988, when Babcock was included for the full six months.

There was an extraordinary profit of £194m, representing demerger gains, less costs of the restructuring, a £10m settlement of employee share options before the demerger and £1.7m of expenses incurred in the abortive attempt to sell the North American business. In addition, the special distribution of Babcock International shares to FKI shareholders cost £251m.

'We do accept the fact that in the second half trading conditions are going to be difficult but the company has planned for that' — Tony Gartland

Turnover from FKI's continuing businesses rose from £359.9m to £396.6m. Mr Tony Gartland, now non-executive chairman of the company, said order intake had risen by 22 per cent and FKI's order book world-wide had grown by 12 per cent in the first half of the year.

However, he warned: "We do accept the fact that in the second half trading conditions are going to be difficult – but the company has planned for that."

Operating profits at the electrical products division were up from £16.1m to £17.6m in the period, on sales of £148m (£142m). Babcock Industries made £21.7m (£20.7m) on turnover of £249m (£217m), although the division's dollar profits were slightly down due to losses on some material handling contracts. FKI said it intended to retain and develop the North American operations.

● COMMENT

All the mergers and demergers in the world cannot distract shareholders from the fact that FKI is in some pretty difficult markets. The company admits as much itself, warning of "recessionary trends" in Europe and North America. These figures were in line with expectations, but downturns in demand in areas such as rail equipment and material handling do not bode well. Analysts are particularly concerned about trading in the North American division, which FKI now has to keep whether it likes it or not. For this year the company is expected to make about £75m before tax, with a fall in 1990-91. That would put the shares – down 2p to 79p yesterday – on a measly multiple of just 6. That is too low for the group to move forward by large acquisitions, and not high enough to release those unlucky investors who bought shares in the vain hope of a special dividend pay-out from the sale of the US operations.

John Foster shares hit by warning and sharp profits fall

By Alice Rawsthorn

JOHN FOSTER, the Yorkshire wool textile group with the prize-winning Black Dyke Mills brass band, saw its shares fall by 31p to 119p yesterday when it unveiled a fall in pre-tax profits from £1.42m to £711,000 for the six months to September 1 and warned of a further reduction in profits for the full year.

Mr Harold Harvey, managing director, said the fall in profits was attributable to short term problems caused by changes in the production system, a decline in the UK market and the cost of introducing new collections. The problems should be resolved, he said, and Foster would return to profits growth next year.

The Yorkshire wool industry, like other areas of textiles, has had a difficult time since the start of this year. It is still enjoying healthy export growth, but the home market has been hit by increasing imports and dwindling demand.

Foster, which depends on the UK for a third of turnover, experienced a 10 per cent fall in domestic sales in the interim period. These problems were compounded by disruptions caused by the installation of new machinery and changes in its production system.

The company also incurred hefty costs for the development of new collections for the US, West Germany and Italy. Mr Harvey said the new collections had been well-received – Foster has won orders from Ralph Lauren in the US and Hugo Boss in West Germany – but they will not contribute to profits until next year.

As a result operating profits fell to £857,000 (£1.59m) on static sales of £16.53m (£16.75m). Earnings per share fell to 4.1p (9.3p). The board is holding the interim dividend at 1.75p.

Foster yesterday issued a statement warning that profits for the full financial year would be "well below" last year's levels. Mr Harvey said that although he expected Foster to return to profits growth next year, the rate of increase would be more modest than in recent years.

Vosper buoyed by £200m order and 23% increase to £5.34m

By John Ridding

VOSPER THORNEYCROFT, the south coast warship builder, yesterday expressed confidence that it would shortly be awarded a contract worth more than £200m to supply three corvettes craft to Brunei.

Mr Roy Withers, chairman, said the company was "at the stage of discussing details" concerning the Brunei contract and that completion could be "quite imminent".

The statement came as the group unveiled pre-tax profits of £5.34m for the six months to October 1, an increase of 23 per cent on last time's £4.3m. Turnover rose 27 per cent from £38.3m to £48.6m.

The Brunei order will provide another boost to an order book which already stands at about £500m and extends for six to seven years.

With respect to current contracts, the impact of falling oil revenues on Saudi Arabia has meant that Vosper has had to match the construction of the six Sandown-type minehunters ordered by the Saudis with the cash flow available from the large Al Yamamah, UK-Saudi defence contract.

However, the first ship was launched in August and Vosper expects to begin work on the second early next year.

Elsewhere in the Middle East, Vosper said that problems with a £20m contract, against which the company took unspecified provisions earlier this year, had now largely been overcome and that normal working had been resumed.

During the period, an increased proportion of the group's work in progress had to be financed from its own resources. Consequently, Vosper's cash balances were reduced from £27m to £13m and the net interest receivable remained constant at £1.3m.

Earnings per share increased from 9.2p to 11.3p and the interim dividend has been increased to 3.125p (2.75p.)

● COMMENT

The spread of rapprochement across the world's trouble spots is potentially bad news for defence contractors. But investors in Vosper should not be concerned. Even without the Brunei order, which seems to be in the bag, there is enough work for about six years – a figure which few engineering companies can match. At the same time, there is little reason to fear a fall-off in further demand for Vosper's ships. The Royal Navy is expected to go shopping next year for more minehunters, which represent the bulk of Vosper's output, and European detente has little impact on the demand for patrol craft in the Middle or Far East – Vosper's principal markets. With the non-shipbuilding businesses, which represent about one-third of sales, performing satisfactorily, the company seems on course for pre-tax profits of at least £12m in the current year. The prospective multiple of just under 10 which this implies is easily justified by its defensive merits.

Anglo Scandinavian £20m offer

Anglo Scandinavian is becoming the latest investment trust to join the London market through a £20m offer for subscription. It plans to list in Stockholm as well in what it believes would be a first-time move by a UK company, writes Clare Pearson.

The launch of the trust, which aims to invest in other UK investment trusts, follows the lifting of Swedish exchange controls earlier this year.

The issue is of 20m ordinary at £1 each, with one warrant to subscribe for one share for every five ordinary shares. Firm applications have been received for 10.3m shares.

The prime objective of the trust is to provide a yield of about 6 per cent. Most of its assets will be invested in other quoted trusts which are trading at a high discount. But up to 15 per cent will be invested directly in international equities and derivative products including traded options and warrants.

In the UK, the issue is being sponsored by J.S. Gadd, the corporate finance and capital markets group founded by Mr Staffan Gadd, former chief executive of Samuel Montagu, the merchant bank. The Swedish sponsor is Skanska Banken and Merchant, Grundstrom Partners Fondkommission. Blkuben Bors is sponsor in Denmark.

Anglo Scandinavian is to be managed by SG Investment Management.

Select Appts advances 18%

By Vanessa Houlder

SELECT APPOINTMENTS, the USM-quoted recruitment agency, yesterday announced an 18 per cent rise in pre-tax profits from £2.73m to £3.22m for the six months to October 5. However, earnings per share fell from 11.1p to 8.3p.

The results reflected increased losses in the US and France, offset by a strong advance in Australasia and a steady UK performance.

The fall in earnings followed an increase in the number of shares resulting from last year's acquisitions of Morgan & Banks in Australia and CWI in the US and benefits in the corresponding period last year from the deferred consideration for Morgan & Banks.

Mr Robert Klapp, chairman, said that some tightening was evident in the UK and Australian markets, although there was no sign of a significant downturn. "Much will depend on how economic events unfold over the next four months," he added.

The performance of the US operation had been a "major disappointment." The operating loss rose from £80,000 to £239,000, after a rapid deterioration in the CWI business acquired last December. The management recently stepped down and Mr Romney Rawes, the joint managing director of the UK operation, has assumed control. This change was expected to produce a rapid transformation, said Mr Klapp.

The French business increased its operating loss from £92,000 to £100,000, but has been trading profitably since August. Although the division's future was under review at the year end, new offices have since been opened and it is expected to break even this year.

Mr Klapp said the major objectives were to improve profitability in France and the US. With the tax credits for these losses available to shelter profits, success would have a significant impact on earnings per share, he said.

In the UK – still the group's largest market – profits increased from £1.69m to £1.78m, although margins fell from 15 per cent to 14.5 per cent, due to increased overheads.

The temporary sector increased disposable revenues by 37 per cent, compared with a 7 per cent rise in disposable revenues from the permanent sector. This side of the business, which accounts for about half the UK operation, was affected by the shortage of suitably qualified applicants rather than vacancies, which were well ahead of the same period last year.

In Australia, profits increased from £1.02m to £1.62m, after a continued strong performance from Morgan & Banks.

The interim dividend was unchanged at 1.2p per share.

Nu-Swift

In yesterday's FT it was incorrectly stated that Nu-Swift's stake in Compagnie Centrale Sicli had been valued at FFr299m through a call option taken by Rothschild et Cie Banque and Drexel, Burnham and Lambert. The correct value is FFr1.9bn.

Memec makes French acquisition

Memec (Memory and Electronic Components) has paid FFr48.3m (£5m) for 80 per cent of Newtek SA of France, supplier of specialist semiconductors, and will pay FFr1.7m for a further 3 per cent in October 1990. In addition Memec has an option to acquire the outstanding 17 per cent within five years for a profit-related amount.

PUBLIC WORKS LOAN BOARD RATES

Effective November 29

Years	Quota loans repaid: by EPI†	At††	at maturity§	Non-quota loans A* repaid: by EPI†	At††	at maturity§
1			13⅞			14⅝
Over 1 up to 2	13½	13½	12½	14½	14½	13¼
Over 2 up to 3	12⅞	12⅝	11⅞	13⅞	13⅝	12⅝
Over 3 up to 4	12¼	12⅛	11⅝	13¼	13⅛	12⅜
Over 4 up to 5	12	11⅞	11½	13	12⅞	12¼
Over 5 up to 6	11¾	11¾	11⅜	12¼	12¼	11⅞
Over 6 up to 7	11⅝	11⅝	11¼	12⅛	12⅛	11¾
Over 7 up to 8	11½	11½	11⅛	12	12	11⅝
Over 8 up to 9	11½	11⅜	11	12	11⅞	11½
Over 9 up to 10	11⅜	11⅜	10¾	11⅞	11⅞	11¼
Over 10 up to 15	11⅛	10⅞	10⅜	11⅝	11⅜	10⅞
Over 15 up to 25	10½	10¼	10⅛	11	10¾	10⅝
Over 25	10¼	10	10	10¾	10½	10½

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

UK COMPANY NEWS

US subsidiaries help Dawson improve 11% to £23.5m

By Alice Rawsthorn

DESPITE DIFFICULTIES in its UK textile division Dawson International, the Scottish textile group best known for its luxury knitwear, managed to increase pre-tax profits by 11 per cent from £21.07m to £23.49m in the 27 weeks to September 30.

Mr Ronald Miller, chairman and chief executive, said the strong performance of the group's subsidiaries in the US – including the recently acquired CPG sportswear business – and the benefit of currency changes countered the weakness of its UK interests.

Dawson's sales rose to £241.92m (£179.81m) and operating profits to £28.36m (£21.79m). The group faced a sharply higher interest bill of £4.87m (£720,000) because of the cost of financing acquisitions and higher levels of capital employed to increase stocks of cashmere knitwear.

Earnings per share rose to 9.7p (8.7p). The interim dividend is lifted to 2.9p (2.65p).

Dawson's interests in the UK have been hit by the general downturn in the textile sector. Its spinning and weaving interests increased profits but the fur fabrics division experienced a fall chiefly due to a decline in demand for upholstery fabrics before the new flammability regulations come into force.

The knitwear companies saw profits fall because of the additional problems of unfavourable fashions and disruption in the cashmere market.

In the first half the group fared well in the US – where it is involved with underwear, sportswear and shower curtains. CPG contributed £5m to operating profits and Dawson also "gained" £1.3m because of changes in exchange rates.

Mr Miller said the US businesses were still performing well, but Dawson would incur costs in the second half because of the reorganisation of CPG.

The interim results were slightly ahead of analysts' expectations. Ms Rosemary Banyard, textile analyst at James Capel, forecast pre-tax profits of £49m and earnings per share of 20.5p for the full year. This puts Dawson's shares, which rose by 7p to 210p yesterday, on a prospective p/e of 10.

A knitwear business sheds its rather woolly image

Dawson is changing many of its traditional methods and structures. James Buxton reports

THE COLD weather currently afflicting the UK, the continent and much of the US has cheered the men who run Dawson International's knitwear companies after two warm winters which have only increased the problems of selling knitwear.

Dawson is best known for its knitwear companies located in the Scottish Borders. They sell around the top end of the market and have not suffered as badly as English knitwear companies which mostly make cheaper products. However in the past year Dawson has seen redundancies and short-time working at almost all of them.

Mr Ronald Miller, Dawson's chairman, says the difficulties over the past three years have made the group speed up changes which were necessary anyway. "Knitwear companies have a whole background of tradition. They can close their eyes to the fact that the world is *changing around them*," he says.

Apart from the climate, quality knitwear companies have been affected by:

- Changing fashions as people dress more smartly. Men have gone for blazers rather than knitwear, and women for woven rather than knitted garments.
- Serious problems in obtaining cashmere, a vital ingredient of the best knitwear. Changes in the cashmere marketing system in China have caused not only a 100 per cent increase in prices over the past two years, but also lapses in quality and interruptions of supply. The price of other wools has also risen. Because of price increases demand for cashmere products has dropped 30 per cent this year.
- The rise of sterling against the dollar, affecting trading with the US, one of the main markets for Scottish knitwear.

Last year Mr Miller reorganised Dawson's structure. The group's large acquisitions of textile companies in the US made it no longer practical to have nearly 30 managing directors of subsidiaries all reporting to him. He established four divisions: for the US interests; for spinning and weaving; for fur fabrics; and finally for cashmere, knitwear and fine yarns.

This last is vertically integrated, ranging from Joseph Dawson and Todd & Duncan, subsidiaries which prepare cashmere yarns, to the knitwear companies such as Ballantyne, Pringle, Braemar, Barrie and McGeorge. For a year until his departure earlier this month the division was energetically run by Mr Martin Watts, a man of considerable experience in the clothing industry.

Under his management Dawson made individual companies focus more sharply on different sectors of the market.

Ballantyne has dropped the word Sportswear from its name ("It conjured up an image of jogging suits and sneakers," says Mr George Peden, its new managing director). It is now called Ballantyne Cashmere and has a new corporate identity. Mr Miller says: "We've created a whole new aura for Ballantyne as our flagship company." It has had no lay-offs or short-time working.

In the past six months it has rapidly produced an imaginative and luxurious range of clothes for the autumn 1990 season, including sports jackets, dressing gowns and blazers all in cashmere, in contrast to the classic V-neck pullovers. "You can't buy cheap cashmere today, so it's vital that style, colour and shape are right," says Mr Peden. He employs leading designers such as Oscar de la Renta and Alistair Blair and says the new range has been enthusiastically received.

Ballantyne is also moving into direct retail with its own shops in New York and in Bond Street, London, and has plans for other cities.

Differentiation is also taking place at Pringle, a much larger company with a workforce of more than 1,500. It is concentrating on fewer products and is being allocated a niche as a producer of quality sweaters which includes cashmere products, and with a sports range promoted by the golfer Mr Nick Faldo.

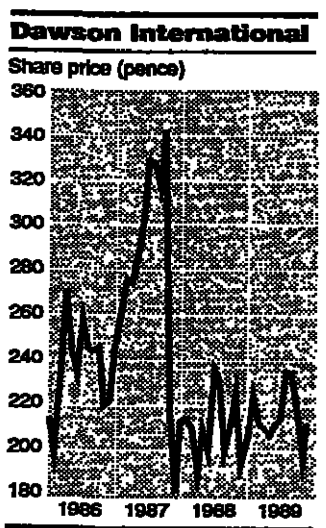
Pringle is also establishing more shops – in Japan, West Germany, Madison Avenue and elsewhere – "to demonstrate the whole product range", as Mr Graham Hayward, managing director, explains. "Other retailers pick and choose."

Ronald Miller – speeding up necessary changes

Mr Miller says he is trying to change the entire culture of his knitwear business. "We felt the pace of change wasn't quick enough. Everyone was locked in a time warp. When you've got a factory, your first instinct is to fill it rather than feel the pace of fashion and react quickly to it. Getting through the hurdle of our manufacturing people saying it can't be done was the first step." The knitwear companies have increased their executive staff and invested in new machinery, despite the downturn.

Dawson International

Share price (pence)



Ballantyne sent a party of production staff to Japan "to see with their own eyes the inroads the Italians have made into the Japanese market and on design", says Mr Miller. The Italians, he says, have the advantage of a reasonable home market for quality knitwear which barely exists in Britain, where most quality garments are bought by foreigners. They also have a more flexible production structure of smaller companies and outworkers.

The Scottish industry has a unique name and skilled workforce but a structure of large mills. Demographic changes have created a shortage of skilled labour (currently eased because of nearly 500 lay-offs and closures throughout the industry).

Mr Miller has temporarily taken direct control of the cashmere, knitwear and fine yarns division following the departure of Mr Watts. He is optimistic that the knitwear market is beginning to turn up, with the forthcoming spring season looking better. But in any case, he claims, Dawson now has a stronger set of companies.

Trimoco reflects sector trend with 27% fall

By Jane Fuller

THE SQUEEZE on motor traders' margins showed through in the £1m downturn in Trimoco's first half profits. Although turnover advanced by nearly 10 per cent to £150.73m, pre-tax profits fell by 27 per cent from £3.82m to £2.8m in the six months to September 30.

Furthermore the company has warned that conditions have worsened. Mr Duncan Naughten, development director, said: "Margins declined in the first half, but they are getting worse now."

Even at the operating level, Trimoco's profit from motor trading was 13 per cent down at £3.55m (£4.07m).

This was partly recovered by the property division, which contributed £1.06m (£788,000), benefiting from an increase in rent charged to the dealerships and from disposals.

Dunstable-based Trimoco has 11 Ford, Vauxhall and Peugeot car franchises and three for Ford Iveco trucks, mostly in the south-east and East Anglia.

Mr Naughten said: "The future of our business is that the amount tied up in property will be bigger. As rental charges go up, it will lead to lower profits from dealership and higher from property."

The biggest dent in earnings was inflicted by interest payments, which raced ahead to £1.8m from £1.04m.

Brighter points are the demand for new versions of the Vauxhall Cavalier and Ford Fiesta, and a stronger second-half performance from the spare parts side.

A lower tax charge limited the decline in fully diluted earnings per share to 16 per cent, making 1.6p (1.9p). The interim dividend is held at 0.6p.

● COMMENT

It is some comfort that the profits mainstay in this business is not car sales. Showrooms are the laggards compared with servicing, body shops and parts. Margins on new cars have been hit as individuals applied the spending brake, increasing the proportion taken by the lower margin *fleet business – 70 per cent in* Trimoco's case. The company has done what it can to combat the collapse in used car values by pushing them out to the trade rather than financing their lingering. Profit forecasts range from £5m to £6.5m, giving a multiple of between five and eight, which spans the sector. The company does not look worth a premium, either because of property or because of Jemeel-stake-inspired bid speculation. Its property policy is more of a long-term bet, while on the bid front there is the poison pill of motor manufacturers digging in their heels over the franchises.

NEWS DIGEST

Allen rises to £2.38m at midway

ALLEN, the contractor, plant hirer, housebuilder and property developer and investor which came to the USM in June, increased its profits from £1.69m to £2.38m pre-tax for the six months to end-September.

The 41 per cent improvement was struck on the back of a surge in turnover from £23.29m to £34m.

Mr Donald Greenhalgh, the chairman and managing director, said the company had begun the second half in excellent shape. He pointed out that the forward workload was at record levels and that overall demand had remained buoyant in spite of high interest rates.

First half earnings emerged 1.1p higher at 7.2p and shareholders are to receive an interim dividend of 1.6p. At the period end, gearing stood at 13.5 per cent.

Perpetual declines to £1.73m

Taxable profits fell by 34 per cent at Perpetual in the year to September 30. The decline from £2.62m to £1.73m was based on revenue down 13 per cent from £7.18m to £6.24m.

After tax of £552,000 (£896,000) earnings came to 4.66p (5.88p). The recommended final of 1.7p makes a total of 2.5p (same) for the year. The directors expect some improvement in the trading results in current year.

Sharp downturn at Eglinton

Eglinton Exploration, the Dublin-based oil and gas exploration and mining company which is traded on the Third Market, reported a sharp downturn in profits for the half-year to June 30.

At the pre-tax level they tumbled from I£232,772 to I£48,960 (£46,300) following a drop from I£1.03m to I£410,547 in revenues. Earnings per share were 1p (4p).

The directors said the decline was due to the temporary suspension of gold production at the South Comstock mine in Nevada while further development work was initiated. The group expects a stronger second half, reflecting increased oil production and higher prices.

The company also announced its intention to complete a full merger with Albion International, its 55 per cent-owned subsidiary. This will effectively create Eglinton's international exploration arm. One new Eglinton share will be issued for every 10 old Albion shares – about 332,000 new shares (a little less than 5 per cent) will be so issued.

Trevian 30% higher in a difficult market

Trevian Holdings, the property trading group, reported pre-tax profits up 30 per cent from £1.35m to £1.75m in the six months to October 5 1989.

This came from turnover of £2.53m, less than half of last year's £5.14m. After tax of £612,000 (£520,000), earnings per 10p share came out at 10.6p (8.9p) and the interim dividend is boosted to 1.45p (1.25p).

The company also announced the sale of BASF House, at Wembley, north London – profits from which would be included in the full year's results.

FINANCIAL TIMES

PUBLISHED IN LONDON ● FRANKFURT ● NEW YORK

INTERNATIONAL & BRITISH EDITORIAL, ADVERTISEMENT & CIRCULATION OFFICES

For FT Cityline Directory, FT-SE 100 Index and MF Access phone 0898 123456; Stock Market Report, 0898 123001; UK Company News, 0898 123002; sterling rates, 0898 123004. Calls charged at 38p per minute, peak & standard and 25p per minute, cheap rate

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unemployed	Vacs.

OUTPUT- By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Consumer goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textiles etc.	Housg. starts*

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn

FINANCIAL-Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M2 %	M4 %	Bank lending £m	BS inflow £m	Cnsmer. credit* £m	Base rate %

INFLATION-Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100)

	Earnings*	Basic matls.*	Whsale. mnfg.*	RPI*	Foods	Reuters* cmdty.	Sterling

*Not seasonally adjusted

†Net changes in amounts outstanding, excluding bank loans.

COMMODITIES AND AGRICULTURE

Opec's 'spirit of co-operation and realism'

Steven Butler assesses the progress made at the past week's Vienna meeting

THE LIST of what the Organisation of Petroleum Exporting Countries failed to achieve at its ministerial conference this week in Vienna may look more impressive than the accomplishments.

And the production agreement emerging from the meeting has all the appearances of a fudged solution that makes few Opec members really happy and creates the likelihood of continued cheating on production quotas that will put oil prices in danger.

Opec raised its official ceiling at the meeting from 20.5m barrels a day to 22m b/d in the first half of the year, although actual production is running close to 23.5m b/d. The United Arab Emirates expressed reservations about its quota and will continue to overproduce, while Libya also lodged objections.

Yet perhaps even more important than these shortcomings is the fact that they are quickly becoming irrelevant.

The short term test of the agreement will come in the new year and it will be whether Opec succeeds in taking 1m b/d or more off the market from current production levels.

This could include a 500,000 b/d cut in production pledged firmly by Sheik Ali Khalifa Al-Sabah, the Kuwaiti Oil Minister, about 200,000 b/d by Saudi Arabia to bring it into line with its new quota, and possibly as much as 400,000 b/d off UAE production to bring it back into line with its sustainable production capacity.

Sheik Ali confirmed a gentlemen's understanding among Opec ministers that continued quota violations by the UAE would not be used as an excuse to retaliate, and it would appear a political decision has been taken in Kuwait fully to support of the Opec agreement.

Rilwanu Lukman (left): "Most important achievement . . . not visible to outsiders"; Hisham Nazer (middle) and Sheik Ali Khalifa: both see quotas becoming irrelevant

Production cuts of this size, many analysts believe, would leave the market well supplied with crude but would prevent any serious fall in oil prices, which are currently over $17 for the basket of Opec crudes.

Naturally, some market experts expect that 22.5m b/d is far more than is consistent with a firm oil price, yet Sheik Ali suggested after the meeting that the price was likely to hold steady, even if the market was technically oversupplied, so long as traders were confident that Opec was generally behaving itself.

Over the longer term, however, this meeting may well be seen as part of an important turning point for Opec.

"The most significant achievement of the meeting is not visible to outsiders," said Mr Rilwanu Lukman, the Nigerian Minister who serves as Opec president, yesterday. This achievement is what he called a spirit of co-operation and realism. "We took a realistic view of what one of our members countries (meaning the UAE) would do, and took action accordingly," he said.

This may sound like so much puffery, but in fact the improved atmosphere inside Opec reflects changes in the external environment that have moved in Opec's favour.

Foremost is the rapid increase in world demand for Opec crude – about 7m b/d in five years – that has narrowed the gap between current demand and Opec capacity. The possibility of a serious war for market share among Opec members no longer looks credible, and with much more oil now being traded in long-term, although market-linked, contracts, a broad sort of stability has emerged that has reduced *the risk of holding oil stocks.*

This meeting has been dominated even more than earlier ones by the big Gulf producers, and there was a renewed sense of self-confidence expressed by some Gulf ministers that they are regaining control over their destinies.

Sheik Ali predicted that by the end of 1991 Opec would be able to do away with its cumbersome production quota system because all but three or four countries would have reached the limits of their production capacity. He envisioned the quota system being replaced by informal agreements to regulate the market among these countries, the remaining big producers.

This vision was also endorsed by Mr Hisham Nazer, the Saudi Oil Minister. "I foresee a time very shortly when the ceiling and the quotas will be totally irrelevant," he said.

Unlike Sheik Ali, who said nominal oil prices should remain at about $18 for at least three to four years, Mr Nazer would like to see prices over $18 earlier. "The price will gradually go up when the market is confident that this agreement is durable," he said, adding, however, that, "I will become alarmed if the increase in price will increasingly call into effect the alternative sources of energy."

What all the important oil ministers, from Mr Lukman to Mr Nazer, now appear to recognise is that while there may be some limited scope for oil price increases in the near term, the future of their nations' main source of income depends on oil remaining a competitive fuel for many years. They have said repeatedly they wish to avoid setting off another cycle of oversupply, demand contraction, and price collapse.

Mr Nazer is looking into the future with particular confidence not only because the revenue crises caused by the collapse of oil prices in 1986 appear things of the past. Saudi Arabia has also recently made large discoveries of light, low-sulphur crude oil that is increasingly in demand and commands a premium in the market. Mr Nazer said for the first time that Saudi Aramco, the Saudi oil company, had already proved up 2bn barrels of these new reserves, and hinted that the final total could be many times greater if current ideas about reservoir size were confirmed in future drilling.

These reserves could fill a gap in the market by replacing declining supplies of low sulphur crudes from other sources at a time when sulphur is becoming more and more of an environmental worry.

Mr Nazer said that a number of longstanding taboos had been broken at the meeting. Foremost was the recognition by some Opec members that they were running into capacity constraints. Indonesia, which agreed to forgo its entire pro-rate quota increase, was the first and boldest in this respect, but others would follow shortly.

He said that quota parity – not wanting some other Opec member to be allowed more production than yourself – was no longer an important issue. He also said there was general agreement that a response to indiscipline by individual members should be collective, and there was no excuse for individual countries boosting production over quota.

The months ahead will prove the extent to which these changes have taken root in Opec. *Yet the cartel appears* none the less to have emerged from this conference, while not having solved all its problems, at least better prepared to meet the challenges it faces in the future.

Commodity market plan studied in Chile

By Barbara Durr in Santiago

THE CHILEAN Government is studying a proposal for creation of a commodities exchange. The market would initially deal only in domestic grains, but could eventually incorporate other important export products such as copper, fishmeal and cellulose.

The proposal for the exchange was made by Chile's largest private business organisation, the Confederation of Production and Trade, and the Association of Agricultural Products Brokers. The government study is to be concluded in 90 days and, if the exchange is given the green light, legislation would then have to be submitted to the new Chilean Congress, which begins to function next March 11.

Mr Juan Sutil, director of the AAPB, said there was need to stabilise the domestic Chilean agricultural market by introducing the elements of investment and speculation.

He explained that because there were many producers and a small number of buyers the market has frequently had problems with setting realistic prices. With a commodities exchange where futures and options could be traded, he said producers could project medium- and long-term prices for their goods, giving greater stability to the market.

Government intervention in the market, setting prices or using support prices, especially in key products such as wheat, maize and rice, has been the main way to even out its problems in the past.

In terms of physical product, Mr Sutil estimated that annual trading in the exchange would run to about $200m. Trading in futures, which could potentially reach more than $1bn, would be feasible for wheat, maize and rice but other products, such as barley, oats and oilseeds, would be dealt with only on a spot market.

Chile's produced 1.56m tonnes of wheat this year, 700,000 tonnes of maize and 200,000 tonnes of rice.

Mr Sutil said that because Chile was the largest producer of copper and fishmeal and in the next decade would become one of the top producers of cellulose, a Chilean commodities exchange could at a later date include these products.

He cautioned, however, that the feasibility of an exchange would depend on the economic policies put in place by the new democratic government, which will be elected in December, ending more than 16 years of a pro-free market military regime. "If free-market policies are not maintained, creating this exchange will be impossible," he said.

Prices of palm oil and tin on the slide in Kuala Lumpur

By Lim Siong Hoon in Kuala Lumpur

THE KUALA Lumpur Commodity Exchange (KLCE) has watched tin and palm oil prices slide to long-time lows over the past week, while its other markets, for cocoa and rubber, have been in the doldrums for some time.

The spot tin price yesterday closed 50 Malaysian cents lower at 17.50 ringgits a kilogram ($6,480 a tonne), close to the level ruling two years ago. The price has fallen 12 per cent this month alone and 30 per cent since July.

The downturn in the palm oil market has been even more severe, and sudden, with prices dropping 20 per cent in just two weeks.

The December delivery contract closed yesterday at R590 a tonne yesterday, after touching R575 on Monday, and traders think the bear trend could worsen with prices sliding towards R500 a tonne.

These falls have confounded government and private, predictions of stable though weak prices for tin and palm oil.

The palm oil fall came within days of news that Malaysia had stocks of over 1m tonnes. This year's output has risen by 16 per cent, double the official projection, while demand has declined. Forecast in the latest report from International Monetary Fund placed the world's production for 1988-1989 at 9.4m tonnes, a mere 200,000 tonnes above consumption. The stock level is thought to have risen by 19 per cent to 1.7m tonnes.

High turnover at the KLCE also called the bluff of big Malaysian producers who were reported to have vowed to defend prices at R720 a tonne by stockpiling the surplus.

The demand and supply conditions in the tin market seem less straightforward. At one time traders were pointing the finger at big London merchants, who they said were manipulating the market. But over the past month offerings on the spot market have been high, an indication that miners might be dumping stocks.

The Association of Tin Producing Countries estimates that stocks, mostly held in Malaysia, now total about 27,000 tonnes, 7,000 tonnes above what it regards as normal. Malaysia's stockpile has risen steadily this year: from 18,000 tonnes at the end of June to 18,700 tonnes in August and 19,400 tonnes in September.

Latest figures, from the Statistics Department, also show rising production. For the nine months to September, output totalled 24,000 tonnes, 13 per cent higher than the previous period.

EC rules proposed for 'organic' food

By Tim Dickson in Brussels

A NEW set of rules governing the production and labelling of organically-produced farm products was formally proposed by the European Commission yesterday.

The measure is a response to increasing consumer demand for "organic" foodstuffs – grown either without or at most with small quantities of synthetic fertilisers and pesticides – and the need to ensure fair competition between producers.

Brussels generally welcomes the development of this market and believes the higher prices at which organic products are often sold will boost farm incomes and help farmers adjust to the changes in the Common Agricultural Policy. A less intensive agriculture also fits in with the Community's aim for better environmental protection and maintenance of the countryside.

The proposal for an EC regulation sets out rules of production, which establish basic principles of organic farming (such as soil fertility and pest, disease and weed control) and, according to a Commission official, lay down "very strict" provisions on the use of synthetic chemicals. The option of excluding synthetic chemicals completely was one considered in earlier Commission deliberations on the plan.

On the key issue of "green" labelling, the regulation sets out requirements covering the method of production, ingredients, and inspection which must be met if products are to be termed "organic".

An inspection system is proposed covering all stages of production and arrangements included to allow verification on imported products.

The Commission believes that the approach of the single European market reinforces the need to harmonise EC rules – not least because some member states have already introduced their own controls on the use of organic products – and claims that as a result such foodstuffs will gain credibility in the eyes of consumers.

Urging cheap, 'green' natural gas on the Third World

John Hunt reports on an international energy efficiency conference in Paris

A GREATER role for natural gas in the improvement of energy efficiency in Third World countries is being urged by the World Bank's Energy Sector Management Assistance Programme (Esmap). This would have the added benefit of reducing damaging carbon dioxide emissions.

Gas reserves in over 50 developing countries have not been exploited to anything like their full potential despite their relatively low cost compared with other fuels. Esmap has set up a Natural Gas Development Unit to promote its development and use.

The wasteful use of fossil fuels, particularly coal, in developing countries is a major obstacle to a reduction in emissions of carbon dioxide, the main culprit in global warming – the so-called greenhouse effect. The ratio of carbon dioxide emitted per unit of energy by natural gas is a small fraction of such emissions from coal and oil.

Industrialised countries are still responsible for most greenhouse gas emissions. But most of the increases are produced by third world countries as a result of economic and population growth.

It is estimated that about 20 per cent of energy consumed for commercial purposes in developing countries could be saved by using modern technology.

Esmap last night completed a 3-day meeting in Paris on these problems. The programme was founded by the World Bank and the UN Development Programme and is sponsored by the European Community and countries which include the US, Britain, Japan, France and Australia.

It provides policy advice to the Third World on energy saving, carries out energy assessments and designs efficiency programmes for them.

The signs are that World Bank loans to developing countries will increasingly be conditional on the adoption of improved methods of using energy.

Mr Tony Churchill, director of Esmap's Industry and Energy Department, says the Bank is likely to say "no more loans" in cases where a monopoly power utility continues to operate inefficiently.

The size of the problem is considerable. It is estimated that some of the larger developing countries use four times as much energy per dollar of economic output as Germany, France, Italy or Japan.

Improved energy use could be achieved through more efficient refrigerators, air conditioners, water heaters and even wood burning cooking stoves and charcoal kilns.

A study by Esmap found that over the past 20 years there had been a trend towards increasing inefficiency. Losses in the delivery of electricity were commonly greater than 20 per cent and sometimes approached 50 per cent.

"It is clear that technical losses in networks are unacceptably high," it stated.

Electricity generation tended to be of a low standard particularly where it was based on old coal technology.

Energy losses in petroleum refining in developing countries from leakage and flaring of refinery gases were as high as 5 per cent when they should have been as low as 0.5 per cent in a well run refinery.

The underpricing of energy in the Third World also encourages its inefficient use. Esmap argues that more realistic pricing of fuel would lead to energy sensitive industries adopting better methods. It gives the example of the cement industry as a releaser of substantial carbon dioxide during production. It estimates that the energy requirements in cement plants in some developing countries are 35 to 50 per cent greater than in Sweden, Japan and the US.

The organisation is, however, highly sceptical of some widely-advocated solutions to the greenhouse effect such as large reforestation programmes.

WORLD COMMODITIES PRICES

LONDON MARKETS

GOLD prices edged ahead on the London bullion exchange, finding some support from the weaker dollar and Comex. Gold now seems to be consolidating at present levels, dealers said, with fundamentals remaining constructive and charts indicating levels around $430 to $440 an ounce in the near future. On the LME tin prices continued downwards, cash tin closing at $6,440 a tonne – a new contract low. Trading remained thin as the three-month price approached $6,500 a tonne which some analysts felt might be a support level after a decline of more than $300 this week and some $1,100 compared with a month ago. On the coffee market, November came under pressure as nearby supplies appeared plentiful. Dealers said it should go off the board fairly quietly, possibly at a small discount to January.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.65-5.80z	-.075
Brent Blend	$18.03-8.07z	-.15
W.T.I. (1 pm est)	$18.20-9.25z	-.25
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$187-189	-2
Gas Oil	$189-190	-1
Heavy Fuel Oil	$104-105	-1
Naphtha	$157-159	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$412.25	+1.50
Silver (per troy oz)♣	565c	-1
Platinum (per troy oz)	$515.65	-3.30
Palladium (per troy oz)	$138.75	+.50
Aluminium (free market)	$1735	+30
Copper (US Producer)	113⅝-116	
Lead (US Producer)	39c	
Nickel (free market)	425c	+3
Tin (Kuala Lumpur market)	17.50r	-.42
Tin (New York)	298.5c	-5.5
Zinc (US Prime Western)	73¼c	
Cattle (live weight)†	112.17p	-.30*
Sheep (dead weight)†	204.51p	+.88*
Pigs (live weight)†	88.70p	-2.65*
London daily sugar (raw)	$352.6x	-8.6
London daily sugar (white)	$399.0x	-1.0
Tate and Lyle export price	£341.0	-8.0
Barley (English feed)	£116.0	
Maize (US No. 3 yellow)	£128.75	+.25
Wheat (US Dark Northern)	£130	+2
Rubber (spot)♥	57.50p	+.50
Rubber (Jan)♥	60.00p	+.50
Rubber (Feb)♥	61.00p	+.50
Rubber (KL RSS No 1 Dec)	225.5m	+1.0
Coconut oil (Philippines)§	$432.5x	-2.5
Palm Oil (Malaysian)§	$290z	
Copra (Philippines)§	$285w	
Soyabeans (US)	£173.0	
Cotton "A" index	79.95c	+.15
Wooltops (64s Super)	580p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct. x-Dec/Jan. t-Jan/Mar. v-Nov/Dec. w-Dec. z-Jan †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Dec	647	651	652	644
Mar	645	644	649	640
May	658	655	659	651
Jul	671	669	672	664
Sep	687	687	689	681
Dec	710	712	713	705
Mar	726	732	732	724

Turnover: 7458 (6641) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Nov 27 744.74 (750.49): 10 day average for Nov 28 772.77 (778.62)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low	
Nov	695	706	706	692
Jan	682	688	691	681
Mar	682	687	691	681
May	700	701	708	698
Jul	725	720	724	718
Sep	739	742	745	739
Nov	758	762	763	760

Turnover: 3155 (2080) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Nov 28: Comp. daily 61.33 (60.92). 15 day average 62.20 (62.25)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Dec	307.40	322.00	317.60	306.00
Mar	312.20	321.40	320.00	312.00
May	310.20	318.00	317.40	309.80
Aug	305.00	312.60	312.00	305.00
Oct	297.20	305.60	304.80	297.00
Dec	298.00	300.00	298.00	
Mar	285.00	287.40	287.00	284.00
White				
Mar	385.00	391.50	390.00	384.00
May	393.00	396.00	394.50	390.00
Aug	399.00	405.00	403.50	399.00
Oct	370.00	376.90	375.00	371.00
Dec	298.00	300.00	298.00	
Mar	358.50	363.00	359.00	357.00

Turnover: Raw 8001 (6127) lots of 50 tonnes. White 1366 (1293). Paris- White (FFr per tonne): Mar 2365, May 2380, Aug 2460, Oct 2305, Dec 2240, Mar 2240.

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Jan	18.06	18.30	18.24	18.07
Feb	17.87	18.09	18.05	17.84
Mar	17.70	17.92	17.88	17.68
Apr	17.55	17.87	17.55	17.50
IPE Index	18.21	18.40	18.21	

Turnover: 11174 (6891)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Dec	185.00	185.50	186.50	184.75
Jan	179.00	179.50	180.50	178.50
Feb	173.00	173.25	174.75	172.25
Mar	167.25	168.50	169.00	167.00
Apr	161.50	163.00	162.25	161.25
May	157.75	161.00	160.75	157.75
Jul	154.50	158.00	157.00	154.50

Turnover 8750 (7634) lots of 100 tonnes

INDICES

REUTERS (Base: September 18 1931 = 100)

Nov 29	Nov 28	mnth ago	yr ago
1828.0	1831.5	1861.3	1863.0

DOW JONES (Base: Dec. 31 1974 = 100)

	Nov 28	Nov 27	mnth ago	yr ago
Spot	129.86	128.12	129.84	135.66
Futures	131.11	131.28	129.63	139.12

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 16,825 tonne
Cash	1735-6	1720-3	1740/1737	1737-40		
3 months	1722-4	1713-4	1725/1726	1724-6	1715-6	39,677 lots
Copper, Grade A (£ per tonne)						Ring turnover 32,450 tonne
Cash	1609-10	1607-9	1625/1622	1623-4		
3 months	1623-4	1617-8	1636/1609	1632-3	1609-10	76,848 lots
Lead (£ per tonne)						Ring turnover 12,125 tonne
Cash	426-7	430-1	425	425-6		
3 months	425.5-6	429-30	428/425	425-6	425-6	11,833 lots
Nickel ($ per tonne)						Ring turnover 678 tonne
Cash	9150-200	9100-200	9300/9100	9150-200		
3 months	8510-50	8500-600	8600/8475	8575-600	8500-50	7,287 lots
Tin ($ per tonne)						Ring turnover 455 tonne
Cash	6430-50	6550-80	6460	6430-50		
3 months	6570-5	6680-700	6725/6570	6595-600	6710-25	5,351 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 6,950 tonne
Cash	1410-5	1384-8	1412/1408	1410-2		
3 months	1360-5	1353-5	1383/1335	1355-60	1350-5	16,483 lots
Zinc ($ per tonne)						Ring turnover 3,050 tonne
Cash	1380-5	1375-85		1380-90		
3 months	1330-40	1330-3		1325-30	1320-30	2,418 lots

LME Closing £/$ rate: SPOT: 1.5665 3 months: 1.5415 6 months: 1.5226 9 months: 1.4993

POTATOES – IPE £/tonne

	Close	Previous	High/Low	
Feb	155.0	155.0		
Apr	213.5	214.5	216.1	211.5
May	238.5	240.0	240.5	236.4

Turnover 415 (402) lots of 40 tonnes.

SOYABEAN MEAL – IPE £/tonne

	Close	Previous	High/Low
Feb	146.00	145.80	146.50
Apr	144.00	143.50	
Jun	141.00	141.00	

Turnover 5 (610) lots of 20 tonnes.

FREIGHT FUTURES – IPE $10/index point

	Close	Previous	High/Low	
Nov	1668	1670	1666	
Dec	1628	1658	1640	1625
Jan	1645	1670	1669	1645
Apr	1654	1676	1670	1652
Jul	1395	1415	1398	1385
Oct	1510	1530		
BFI	1668	1671	1666	

Turnover 558 (345)

GRAINS – IPE £/tonne

Wheat	Close	Previous	High/Low	
Jan	114.60	114.80	114.70	114.25
Mar	117.90	118.05	117.90	117.45
May	121.10	121.20	121.10	120.50
Jun	122.50	122.65	122.50	122.40
Sep	105.15	105.15	105.15	
Nov	108.00	107.95	108.00	
Barley	Close	Previous	High/Low	
Jan	110.80	111.00	110.80	
Mar	113.80	113.80	113.80	113.75
May	115.45	115.50		

Turnover: Wheat 223 (548), Barley 10 (44). Turnover lots of 100 tonnes.

PIGS – IPE (Cash Settlement) p/kg

	Close	Previous	High/Low
Feb	110.0	110.3	109.5
Apr	110.8	110.8	110.0
Jun	111.0	111.0	
Aug	110.0	110.0	
Oct	111.0	109.0	
Nov	116.0	122.0	

Turnover 10 (55) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	412-412½	263-263½
Opening	412-412½	263-263½
Morning fix	410-410¾	262.626
Afternoon fix	412½-413	262.179
Day's high	412½-413	
Day's low	408¼-408¾	
Coins	**$ price**	**£ equivalent**
Mapleleaf	420-425	268-271
Britannia	420-425	268-271
US Eagle	420-425	268-271
Angel	421-426	268¾-272
Krugerrand	411-414	262½-264½
New Sov.	97-99	62-63
Old Sov.	97-99	62-63
Noble Plat	521.65-530.10	333.45-338.70
Silver fix	**p/fine oz**	**US cts equiv**
Spot	358.60	561.15
3 months	371.90	572.70
6 months	385.25	594.00
12 months	410.55	606.35

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1600	144	137	5	23
1700	67	75	27	59
1800	22	36	80	117
Copper (Grade A)	Calls		Puts	
2400	148	159	21	76
2500	82	107	55	123
2600	39	70	110	182
Coffee	Jan	Mar	Jan	Mar
700	12	15	31	84
750	2	7	71	126
800		3	118	172
Cocoa	Mar	May	Mar	May
600	63	79	18	21
650	35	50	40	42
700	17	30	72	72
Brent Crude	Jan	Feb	Jan	Feb
1600	25	33	17	48
1650	7	15	49	
1900	1	9	93	

US MARKETS

IN THE METALS, prices continued lower in gold, silver and platinum markets, reports Drexel Burnham Lambert. Platinum posted the biggest decline falling 15.80 basis January. Copper was lower after technical activity. Heavy switch volume was noted. In the softs, sugar had the most active session falling 42 basis March. Trade and commission houses were featured sellers. Cocoa rebounded as speculative buying provided support. Roaster buying continued to firm coffee. The grains were all slow closing near unchanged levels. The livestocks had a limit down move in pork bellies. Live hogs and cattle were lower following the bellies. Cotton and the energy markets recovered due to scattered short covering.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	409.5	413.5	413.5	408.4
Jan	412.8	416.7	0	0
Feb	415.5	419.4	419.2	414.2
Apr	420.6	424.5	424.0	418.5
Jun	425.5	429.4	428.7	424.0
Aug	430.1	434.0	432.8	430.0
Oct	434.9	438.8	435.8	435.8
Dec	439.8	443.7	443.5	438.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	513.2	529.0	524.5	512.5
Apr	518.7	534.3	529.5	518.0
Jul	525.2	540.8	535.0	524.5
Oct	532.7	548.3	540.0	530.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	550.0	569.5	568.0	558.0
Jan	564.1	573.6	570.0	570.0
Mar	573.3	583.0	580.9	570.5
May	581.4	591.1	588.0	578.5
Jul	589.6	599.3	596.0	586.0
Sep	597.9	607.6	604.0	598.0
Dec	610.2	619.9	617.5	608.0
Jan	613.8	623.5	0	0

WOOL

The Australian Wool Corporation is attempting to maintain the world wool market and with 1.5 million bales already in stock its cash resources are running down rapidly. Borrowing capacity beyond that is considerable. South America and South Africa are seen by some users as cheaper suppliers, necessary to try to stay competitive in a sluggish market where the aim is to reduce stocks. Bradford prices for tops can sag below levels directly related to Australian costs, and with tops available from some overseas sources at even lower levels and buyers everywhere highly cautious, the market remains very dull.

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	111.50	112.60	111.50	111.50
Jan	110.00	110.55	113.00	111.00
Feb	109.00	109.35	111.50	109.35
Mar	107.90	107.95	109.45	107.10
Apr	107.25	107.40	107.40	107.40
May	106.50	106.65	107.50	106.00
Jun	105.90	106.10	107.50	106.00
Jul	105.20	106.55	105.75	105.55
Aug	104.55	105.15	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	19.33	19.25	19.43	19.21
Feb	19.10	19.04	19.20	18.98
Apr	18.76	18.74	18.87	18.70
May	18.65	18.62	18.75	18.58
Jun	18.62	18.50	18.58	18.48
Jul	18.40	18.38	18.46	18.38
Aug	18.32	18.26	18.33	18.30
Sep	18.20	18.16	18.26	18.17
Oct	18.14	18.08	18.15	18.10

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Dec	6030	6031	6060	6010
Jan	5975	5959	6010	5955
Mar	5540	5527	5570	5520
Apr	5255	5287	5310	5205
May	5108	5112	5140	5100
Jun	4990	4997	5030	5000
Jul	4970	4957	5010	4970
Sep	5115	5092	5119	5115

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	918	899	918	894
Mar	925	915	928	913
May	934	924	956	924
Jul	947	935	948	936
Sep	960	950	960	951
Dec	981	970	985	974
Mar	1001	993	1002	992

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	73.25	72.75	73.95	72.90
Mar	77.02	76.27	77.40	76.40
May	79.31	78.60	79.45	78.75
Jul	81.50	80.80	81.60	80.80
Sep	83.65	82.80	83.50	83.00
Dec	86.25	85.60	86.30	86.00
Mar	88.50	88.25	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	13.98	14.96	14.20	13.86
Mar	14.14	14.56	14.39	14.11
May	14.00	14.32	14.21	13.99
Jul	13.80	14.12	14.00	13.79
Oct	13.44	13.74	13.65	13.44
Mar	12.76	13.05	12.98	12.75

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	67.75	67.46	67.99	67.55
May	71.20	70.90	71.50	71.10
Jul	71.36	70.95	71.65	71.25
Oct	67.00	66.40	67.50	66.90
Dec	64.70	64.30	65.56	64.70

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	129.40	129.50	129.60	129.50
Mar	127.60	128.05	128.00	127.25
May	127.40	127.45	127.95	127.00
Jul	126.80	127.40	127.20	126.70
Sep	126.00	126.15	126.25	126.25
Nov	125.65	126.15	126.25	126.25
Mar	124.95	124.95	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	579/2	579/6	580/2	575/0
Mar	592/2	592/4	593/0	588/0
May	604/0	604/2	604/6	599/4
Jul	612/6	612/6	613/0	608/2
Aug	613/4	613/0	613/6	610/0
Sep	607/4	604/0	608/0	603/0
Nov	608/6	604/0	607/0	602/2
Jan	616/4	615/0	616/4	613/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	18.78	18.77	18.85	18.68
Jan	19.02	19.08	19.10	18.92
Mar	19.44	19.44	19.52	19.35
May	19.83	19.82	19.85	19.70
Jul	20.05	20.07	20.10	19.95
Aug	20.08	20.09	20.18	20.05
Sep	20.08	20.10	20.20	20.05
Oct	20.10	20.12	20.20	20.10

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	182.1	184.4	184.3	181.6
Jan	182.9	184.4	184.2	182.2
Mar	183.5	184.3	184.2	182.4
May	182.7	183.3	183.4	181.8
Jul	183.5	183.6	184.0	182.3
Aug	183.3	183.5	184.2	182.8
Sep	183.5	183.5	184.3	182.6
Oct	182.5	183.1	184.0	182.2

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	234/6	234/2	235/0	233/0
Mar	239/4	238/6	239/6	237/4
May	243/4	242/6	243/4	241/2
Jul	247/4	246/4	247/4	245/0
Sep	241/6	239/6	241/6	238/4
Dec	239/2	237/0	239/2	236/4
Mar	246/4	244/0	246/4	244/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	405/6	406/6	407/2	404/0
Mar	408/4	408/2	409/0	406/0
May	391/0	390/0	391/4	388/4
Jul	363/0	362/0	363/0	360/4
Sep	367/0	366/0	367/4	365/4
Dec	377/4	376/6	377/4	376/6

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	75.22	75.47	75.25	71.60
Feb	74.20	74.92	74.75	74.05
Apr	73.97	74.47	74.30	73.75
Jun	71.67	72.12	72.00	71.60
Aug	70.02	70.30	70.25	69.85
Oct	69.90	69.97	70.10	69.80

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	50.52	50.67	50.85	49.77
Feb	49.52	50.16	50.15	48.85
Apr	45.47	46.10	46.20	45.00
Jun	49.20	49.77	49.75	48.75
Jul	48.35	49.80	49.90	49.10
Aug	48.37	48.90	48.65	48.05
Oct	43.90	44.30	44.20	43.90
Dec	45.60	45.77	0	45.50

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	60.55	62.55	60.90	60.55
Mar	58.57	61.57	60.30	58.57
May	59.02	61.02	59.95	59.02
Jul	56.90	59.90	58.75	56.90
Aug	55.02	57.00	56.80	55.00

LONDON STOCK EXCHANGE

Bid activity again dominates equities

RENEWED WORRIES about prospects for sterling and domestic inflation failed to restrain speculative fervour in the UK stock market yesterday. The excitement in the financial sectors excited by this week's acquisitions of Morgan Grenfell and Pearl Assurance by foreign bidders continued to lead the equity *market higher. There was* no shortage of special features, although outside these turnover remained unexciting.

"It does not need much buying to take this market higher," said Mr Douglas McDowell at Salomon International. "All it needs is for no-one to be the other way – and there are no sellers at the moment."

Account Dealing Dates

*First Dealings:	Nov 13	Nov 27	Dec 11
Option Declarations:	Nov 23	Dec [illegible]	Dec 21
Last Dealings:	Nov 24	Dec 8	Dec 22
Account Day:	Dec 4	Dec 18	Jan 8

*New time dealings may take place from 8.45 am two business days earlier

The hunt was on yesterday for the next target for a foreign bid in the financial sector. Guardian Royal Exchange was the most favoured name in insurances, while among the merchant banks Hambros attracted attention as Indosuez took a stake in Baltica, which *has 10 per cent of the UK banking house.*

The market gained more than 20 points on the Footsie scale before turning a shade more cautious towards the close as a small US bank raised its prime rate and London awaited today's routine meeting at the Bundesbank. Today also brings the deadline for nominations of any challengers to Mrs Thatcher's leadership of the British Conservative Party. Share prices were trimmed in the second half of the session by a sell programme, reportedly by a London merchant bank.

Against this somewhat uncertain background, poten*tial retail investors preferred* to stay out of the way. At Kleinwort Benson, the market strategy team described the market as "moribund", although they added that there were areas of considerable opportunity.

The final reading showed the FT-SE Index at 2,255.6, a net gain of *13.6 points. Seaq* volume, still boosted by speculative activity, slipped to 418.3m shares from Tuesday's 436.8m.

The inflationary implications of a fall in sterling were set aside for the time being by an equity market which deduced from the parliamentary speech from Mr John Major, the UK Chancellor of the Exchequer, that *domestic interest rates* are now less likely to be raised to combat currency weakness. His warning on inflation, however, struck home more forcefully in the UK Government bond market; a dealer at Warburg Securities suggested that domestic inflation might now move to 7.9 per cent this month.

A batch of trading results from leading consumer groups did little to dispel the gloom hanging over the sector as rumours continued to circulate of trading difficulties among well-known high street firms, an inevitable consequence of high interest rates.

FINANCIAL TIMES STOCK INDICES

	Nov 29	Nov 28	Nov 27	Nov 24	Nov 23	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.15	83.50	83.64	84.10	83.70	87.03	89.29 (8/2)	83.15 (29/11)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.39	92.52	92.58	92.60	92.71	97.18	99.59 (13/3)	92.29 (29/11)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1781.7	1768.3	1753.2	1754.9	1754.1	1456.0	2008.6 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	288.9	290.7	300.0	298.7	291.4	178.4	309.0 (27/11)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2255.6	2242.0	2224.3	2222.4	2220.5	1792.4	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.79	4.82	4.86	4.85	4.77	4.99				
Earning Yld %(full)	11.60	11.61	11.68	11.68	11.44	12.30				
P/E Ratio(Net)(*)	10.41	10.41	10.35	10.30	10.56	9.84				
SEAQ Bargains(5pm)	26,139	24,418	22,818	28,856	24,474	21,842				
Equity Turnover(£m)†	-	1137.60	836.92	820.48	786.70◆	836.02				
Equity Bargains†	-	24,736	23,176	30,024	24,731◆	22,617				
Shares Traded (ml)†	-	382.8	275.3	369.3	302.0	356.1				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. * Nil 10.32

Ordinary Share Index, Hourly changes — Day's High 1787.5 — Day's Low 1772.6

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1772.6	1781.6	1782.0	1783.3	1785.7	1783.3	1782.2	1781.0

FT-SE, Hourly changes — Day's High 2262.6 — Day's Low 2245.0

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2245.0	2258.2	2259.7	2260.7	2261.7	2259.6	2255.4	2256.1

GILT EDGED ACTIVITY

Indices	Nov 28	Nov 27
Gilt Edged Bargains	82.7	73.9
5-Day average	80.2	78.6

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT indices & daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. ◆Corrected figure. London report and latest Share Index Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
Brit. Aerospace	1,600	520	+7	Hanson	9,300	227½	-½	RHM	1,100	410	-1	Tate & Lyle	3,400	280	+13
British Airways	1,600	207	+½	Harrisons & Cros.	103	144	+1	RMC	528	629	-14	Taylor Woodrow	1,400	254	+2
British Gas	9,700	218	-½	Hawker Siddeley	667	627	+15	RTZ	1,500	535	+7	Tesco	3,630	186	-½
British Land	643	323	+9	Hillsdown Hldgs.	1,400	256		Racal	2,200	245	+2	THORN EMI	991	749	+4
BP	4,800	309½	-1	IMI	857	199		Rank Org.	390	880	+9	Trafalgar House	1,500	341	+5
British Steel	5,300	124		ICI	2,800	1117	+5	Reckitt & Colman	148	1210	+5	Trusthouse Forte	1,500	287	+2
British Telecom	4,300	269½	+2½	Inchcape	445	275		Redland	296	526	+4	Ultramar	2,950	329	-8
Burmah Oil	631	686	+8	Jaguar	362	684	-1	Reed International	2,200	415	-1	Unilever	1,450	679	+6
Burton	1,300	189		Kingfisher	1,700	300	+4	Reuters	738	993	+3	United Biscuits	281	358	+1
Cable & Wireless	2,600	492	+10	Ladbroke	1,700	292	+2	Rolls Royce	2,300	163	-1	Utd Newspapers	151	479	-2
Cadbury Schweppes	1,300	339	+3	Land Securities	1,000	599	+6	Rothmans	193	650	+10	Wellcome	717	729	-1
Carlton Comms.	149	830	-5	Laporte	4	465	+1	Royal Bk of Scotland	2,008	185	+1	Whitbread "A"	1,000	378	+2
Commercial Union	964	469	+8	Legal & General	3,700	395	+7	Royal Insurance	2,600	495	+3	Williams Hldgs.	909	235	
Courtaulds	604	269		Lloyds Bank	2,500	439	+5	STC	629	264	-4	Wimpey	46	227	-2

GRE still heavily bought

Guardian Royal Exchange (GRE) spearheaded a general and determined advance by the UK composite insurance sector on reports that a stakebuilding operation has been carried out. Market stories suggested that the stake had been built up by Generali, the Italian insurance group, and had reached 2 per cent.

Mr Peter Dugdale, GRE's chief executive, said yesterday that he had "no confirmation at all of any stakebuilding; our investigations haven't borne this out." But insurance sector specialists said it was "very likely" that a stake-builder had been operating and that Generali was "one of the likeliest candidates." Another analyst said that with Pearl going out of the market, "there is a genuine enthusiasm for financials, both banks and insurances, with real money being poured into both areas.

GRE shares peaked yesterday at 251p before coming off their best to close a net 11 higher at 247p. Turnover expanded rapidly to almost 10m, the highest for some time and about 0.5 per cent of the company. Since the start of the month, well over 30m GRE shares have been traded on the London market.

Unsteady Bass

Bass recovered from an unsteady start in the wake of full-year figures. Dealers marked the shares down quickly as they saw exceptional items in the balance sheet. "The market was not prepared at all for exceptional costs," said Mr John Spicer of Kleinwort Benson.

Some dealers also reported a frustrated atmosphere at the analysts' meeting – Bass is buying Holiday Inns partly with shares which are to be ADR-listed. The US regulatory body, the SEC, says that a company in such circumstances cannot make a statement that can be construed as soliciting buyers for the shares. In practice, said dealers, this meant no profit forecasts.

The shares slipped to 988p before closer examination of the results began to tell a new story. "When you take the exceptional items out, the figures weren't so bad," said Mr Neil Junor of County NatWest WoodMac. The sentiment was echoed elsewhere and the shares staged a recovery to close at the best of the day, a penny up on Tuesday's close, at 1003p.

There was no let up in the current wave of demand for insurance stocks of all types. In lifes, recent hints that Athena, the French insurance group, had been back in the market adding to its last-announced 9.34 per cent stake in Refuge were proved correct. Athena revealed after the close of the market that it had increased its stake in Refuge to 5.116m shares, or 10.12 per cent. Refuge shares had risen to a year's best 714p at one point before ending the day a net 17 higher at 704p. One analyst noted: "Refuge has already been described as the next life group to move abroad and that label now looks spot on." Britannic, where Refuge has a 19 per cent stake (Britannic has a 7.5 per cent holding in Refuge), rose in sympathy to close 24 higher at 573p.

Legal & General, unprotected by friendly share stakes and viewed by insurance analysts as a potential target, added 7 at 395p on 3.7m, while Prudential firmed 3 to 214p on 4.7m. The scent of bid speculation drove the rest of the composites higher. General Accident, where the market was said to have been caught short of stock, added 34 at 1135p on just less than 1m shares. Commercial Union, where Sun Alliance holds a near 15 per cent holding, put on 8 to 469p and the latter were 12 firmer at 317p on 1.7m.

The banks were again well supported with Barclays coming out the best, 13 higher at 543p on 2.1m.

Hambros stood out in a generally firm merchant banking area, the shares responding to more talk that Banque Indosuez, which yesterday agreed to sell its 14.9 per cent stake in Morgan Grenfell for the bid price of 550p a share, may now turn to the Hambros to satisfy its UK merchant banking ambitions. Hambros closed 11 up at 249p, after 260p. Mr Robert Law at Shearson Lehman Hutton rated the stock his "prime recommendation in the sector – little downside given the current PE and yield ratings, significant upside given the recovery potential in the event of a turn round at the estate agency and the natural speculative interest after events at Morgan Grenfell."

SG Warburg rose 8 to 445p, after 448p and Kleinwort Benson 5 to 381p.

Talk of further stakebuilding by SHV, the privately-owned Dutch group which last revealed its holding as 8.14 per cent, was said to have been partly responsible for the latest rise in Burmah shares. But dealers pointed to the relatively thin trading in the stock – only 631,000 shares – and the stock came off its best levels to close a net 8 higher at 686p, after 690p. A profits downgrading by UBS Phillips and Drew unsettled Ultramar which lost 8 to 329p.

A 67 per cent improvement to more than £200m in year-end profits from Tate and Lyle pleased the market. The shares advanced 13 to 280p on good turnover of 3.4m. The only note of caution struck by analysts was that such good results were an exception. Mr Carl Short of Kitcat & Aitken was typical: "The quantum leap made during 1989 will not be repeated in 1990."

Nurdin and Peacock were excited by speculation that SHV, the privately-owned Dutch holding company, was either increasing or selling its 8½ per cent stake in the company. Dealers felt that the former was more likely and the shares closed 10 up at 190p.

Hazlewood Food had a particularly good day among perky second line foods. The shares climbed 10 to 226p as buying from a leading agency broker left the market short of stock.

The bid premium in Savoy 'A' and 'B' evaporated with news of the company's truce with long-time antagonist Trusthouse Forte. The 'A' shares are quoted on Seaq and are by far the more liquid. However, they are non-voting shares and after falling below £7 closed 65 down on the day at 770p. The voting 'B' shares, by contrast, crumpled from £195 to £140.

"The deal is excellent news for THF," said Mr Paul Slattery at Kleinwort Benson. "They now have two directors on the main board and a strategic committee has been created." He said that the committee was significant and that one early step could be the inclusion of the half dozen Savoy hotels in THF's worldwide reservation system. THF firmed 2 to 287p.

Stricken furniture retailer **Lowndes Queensway** recovered almost all of Wednesday's near halving of the share price after saying it was in restructuring talks with its bankers. Dealers spoke of buying from regional stockbrokers. Lowndes ended 4¼ better at 10p.

Downgradings from two securities houses hit Next. But bargain hunters also moved in and volume swelled in busy two-way trade to 14m shares. Ms Tanya Nelson at Kleinwort Benson cut her forecast for the current year from £30m to £25m, while Mr Charles Nichols at UBS Phillips & Drew took £10m off his to £30m. Ms Nelson said that the long term outlook was more worrying than the level of profits this year. The problems were not just because the retail sector is going through a bad patch, she said, but, for example, at mail order division Gratton, where switching from agents to direct sales seemed to have slowed sales and increased the cost base. Next lost 5¼ to 90½p.

An 11.5 per cent improvement in interim profits from knitwear maker **Dawson International** left the shares 8 better at 211p. But a halving of profits, to £711,000, from worsted and mohair spinner **John Foster**, and an accompanying warning that full-year profits would be "well below the level reached last year" sliced 31 off the shares which ended at 119p.

Full-year results from Hanson were in line with forecasts and the shares shed an early gain of 2 to close ½ cheaper at 227½p on good turnover of 9.3m shares.

A bear squeeze ahead of tomorrow's annual meeting lifted Beazer and the shares gained 6 to 165p. News of financial problems at Lowndes Queensway, the troubled furniture and carpet retailer, affected **Coloroll**, the home furnishings group. The company is said to have around 11 per cent of the UK retail carpet market, as well as being a seller of upholstered furniture. The shares gave up 5 to 66p.

Siebe ended a penny easier at 453p having had a quick run upwards to 473p, as the company published interim figures at the top end of market expectations.

The company reported a 20 per cent increase in profits at £80.8m, up from £67.6m, at the same stage last year. Earnings per share rose from 21.7p to 24.4p, while the interim dividend went up to 5p from 3.37p.

Despite the favourable figures, Mr Paul Compton at UBS Phillips & Drew said: "Given our view of the US economy where Siebe derives a significant part of its profits, margins are already at an optimum and sales must be vulnerable to a downturn in building, white goods and automobile production."

However Mr Pete Deighton at County NatWest WoodMac was more positive and said, "the company has got itself into a good position internationally. It has a good spread of markets and product range, they are cash generative and their order book is higher than 6 months earlier at the peak of the boom."

Shares in **FKI**, which was demerged from Babcock earlier this year, shed 2 to 79p despite an 11 per cent increase in interim profits. Profits rose to £35.4m, from £31.8m, and earnings per share went up from 5.23p to 6.31p.

Also reporting interim figures was **Vosper Thorncroft.** Profits improved by 23 per cent to £5.3m. The shares however eased 3 to 254p on worries about the reduction in the company's cash balances. Mr Brian Rusling at County NatWest WoodMac said: "The company is building the third Sandown class Vessel and it has had to finance that through its own resources." He still expects the company to make profits of £12m for the full year.

British Aerospace continued to profit from Tuesday's Government report which said the company had acquired its Rover Group subsidiary at a bargain price, with the company benefitting from property revaluations after the purchase. BAe was also helped by orders from its Canadian partner for 3 BAe 146-200 Jetliners. The shares gained a further 8 to 521p.

Hawker Siddeley followed the market trend and gained 15 to 627p. Speculation continued that one of its subsidiaries may be bought by Elektrisk, of Norway, which said on Tuesday that it planned to announce a big acquisition of a British company yesterday. There was no news from Elektrisk by the market's close.

Phoenix Timber responded to talk of further stake-building with the shares rising 6 to 99p. **Federated Housing** were 2 off at 78p after the company said an investigation revealed that a 4.98 per cent stake in Federated shares was owned by Porter Homes which indicated the stake was taken for investment purposes.

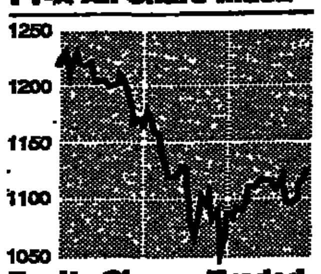
Higgs & Hill, under siege from YJ Lovell, added 3 to 423p as BZW issued a circular saying that Lovell was probably trying to get the land bank cheaply and that Higgs shareholders should expect to get at least 500p a share for the group.

Keen demand for the telecoms stock drove British Telecom up 2½ to 269½p and **Cable & Wireless** up 10 to 492p after brokers' presentations. **Racal Telecom** continued to make good ground, adding a further 11 at 399p with dealers saying the market views the group, which controls the Vodafone cellular network, as one of the favourites to win the West German cellular licence which will be announced on December 12.

Logica, upset recently by worries it may have lost an important US contract, moved up 4 to 336p helped by a hint that the group could attract a bid from STC. The latter slipped 4 to 64p.

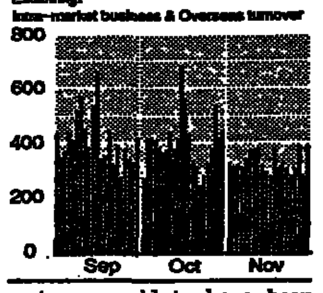
■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 23

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (88). AMERICANS (1) BANKS (6) BUILDINGS (2) CHEMICALS (1) STORES (1) ELECTRICALS (3) FOODS (4) INDUSTRIALS (7) Alfa-Laval AB "B", Baxter Intl. Inc., Green (J.), Grafton Group, Schlumberger, Unilever, Unilever NV. INSURANCE (12) MOTORS (1) PAPERS (2) TEXTILES (1) TRANSPORT (1) TRUSTS (18) OILS (3). NEW LOWS (116). BRITISH FUNDS (53) INT.BANK & O'SEAS GOVT. STLG. ISSUES (8) FOREIGN BONDS (2) BANKS (1) BUILDINGS (3) CHEMICALS (1) STORES (3) ELECTRICALS (8) ENGINEERING (3) HOTELS (1) INDUSTRIALS (12) Aaronson Bros., Charterhall, Coloroll, Delaney, Eleco, Hunting 8¼% Prf., Platignum, Silentnight, Spandex, TLS Range, Welpac, Wyko Group INSURANCE (1) LEISURE (3) MOTORS (1) PAPERS (3) PROPERTY (6) SHOES (1) TEXTILES (2) TOBACCOS (1) TRUSTS (8) OILS (1).

APPOINTMENTS

Smith & Nephew moves

MrJohn Smith, group deputy *chief executive*, SMITH & NEPHEW, will become group chief executive from January 1, succeeding **Mr Eric Kinder.**

Mr Kinder will continue as deputy chairman until the annual meeting next May, when he will succeed **Mr Kenneth R. Kemp** as chairman. Mr Kemp will remain a non-executive director, and has accepted an invitation to become honorary life president of the group.

Senior posts at Booker

BOOKER has appointed **Mr Ian Bell** as director of information technology. He was systems and logistics director, food distribution division. **Mr Bob Muir** has been appointed chairman of Booker Cash & Carry. In a restructured board he will be supported by two joint managing directors.

Nexus establishes its board

Following the managment buy-out of NEXUS PAYMENT SYSTEMS INTERNATIONAL from the Funds Transfer Sharing (FTS) consortium of banks, building societies and other financial institutions, **Mr Rob Farbrother**, formerly chief executive of FTS, becomes managing director; **Mr Keith Baker**, FTS general manager information technology, becomes operations director; **Mr Peter Saxton**, FTS financial controller, becomes financial director; **Mr Harry Smart**, head of planning and research, Northern Rock Building Society, is made marketing and planning director. **Mr Graham Parker**, FTS business development manager, is appointed national accounts manager. **Dr Richard Horsnell** has been appointed non-executive chairman of the new company. He is a former director of Philips International, and is a director of several financial and high-tech companies.

Mr W.R. Probert, an executive board member, BRITISH GAS, becomes managing director, gas supply and strategy, from December 1. **Mr C.H. Brown**, board member for exploration becomes managing director, regional services.

Chief executive of Mercury Communications

■ CABLE AND WIRELESS has appointed **Mr Peter van Cuylenburg** as chief executive of Mercury Communications from January 1. The company says this follows the decision to combine Mercury and Telephone Rentals under the Mercury banner to gain the best advantage from the synergies between the two operations.

■ The joint venture, as yet unnamed, between THE ROYAL BANK OF SCOTLAND and the SCOTTISH EQUITABLE LIFE ASSURANCE SOCIETY, has appointed the following to the board: **Dr George Mathewson**, chairman (strategic planning director, Royal Bank); **Mr Bob Maiden** (managing director, Royal Bank); **Mr Norman Riddell** (managing director, Capital House Investment Management, a Royal Bank subsidiary); **Mr David Berridge** (chief executive, Scottish Equitable; **Mr David Henderson** (general manager (service) and director, Scottish Equitable); and **Mr Bill Stewart**, chief executive (general manager (marketing), Scottish Equitable).

■ **Mr Paul J. Chambers** has been appointed deputy finance director of the APPLEYARD GROUP.

■ CREDIT COMMERCIAL DE FRANCE has appointed **Mr Anthony Greayer** from January 2 to the new post of group chief executive responsible for CCF's investment banking in the UK. He will be chairman of both CCF Laurence Prust and CCF Foster Braithwaite. He was chief executive with Hoare Govett. **Mr René de la Serre**, president and chief operating officer of CCF, will become chairman of CCF Laurence Prust Holdings, UK holding *company.*

■ CRYSTALATE HOLDINGS has appointed **Mr Douglas Stevenson**, chief executive of Software Sciences (part of Thorn EMI), as a non-executive director. **Mr John E. Herrin** and **Mr Arno Nash**, non-executive directors, have resigned.

■ BANQUE INDOSUEZ has appointed **Mr Jean-Jacques Picard**, from the Paris head office, as general manager in the London office, succeeding **Mr Adrien Phares**, who returns to Paris.

British Aerospace Enterprises moves

■ **Mr D.E. Bucknall** has been appointed chairman of BRITISH AEROSPACE ENTERPRISES from December 31, succeeding **Sir Raymond Lygo**. Mr Bucknall was personnel director. He has been succeeded by **Mr F.B. Saundry**, personnel director of the Rover Group.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	56.37	56.82	60.45	-0.03	4.53
Gilts & Fixed Int	6	107.9	107.9	114.5	-0.40	8.73
High Inc Equity	6	131.3	134.3xd	142.9	+1.20	4.44
Worldwide Bond	6	209.1	209.1xd	221.6	+1.60	4.73
Capital Growth						
American Growth	6	207.4	209.4	222.8	-0.20	0.85
Asian Pacific	6	119.3	121.7	129.5	+0.50	1.00
Assets & Earnings	6	152.8	152.8xd	163.5	+0.9	2.26
Capital Reserve Acc	0	87.85	87.85	87.90	-0.03	4.55
Capital Reserve Inc	0	77.97	77.97	78.02	-0.03	5.13
Comdty & Energy	6	117.8	120.3	128.0	-0.70	1.48
1992 Enterprise	6	60.89	60.89	65.13	+0.48	1.97
Euro Capital Acc	6	99.77	100.5	107.0	+1.40	0.70
Euro Capital Inc	6	96.20	96.91	103.1	+1.30	0.73
General	6	175.4	175.4	187.6	+0.60	2.67
International	6	59.81	60.44	64.30	+0.44	0.78
Japan	6	129.8	132.3xd	140.7	+1.20	0.00
Mastertrust	6	93.89	93.89	100.5	+0.71	1.69
UK Growth Acc	6	176.0	176.0xd	188.3	+0.80	1.49
UK Growth Dist	6	116.2	116.2xd	124.3	+0.50	2.25
US Emerging Cos	6	56.23	57.70xd	61.39	+0.08	0.00
Income & Growth	6	296.6	303.2xd	322.6	+2.00	3.18
Ethical	6	46.30	47.55	50.59	+0.16	1.98

Abtrust Management Ltd (1000)H

[illegible]

Midland Personal Pension Unit Trust

British	6	60.13	60.87	64.76	+0.4	3.06
European Growth	6	67.66	67.78	72.11	+0.95	0.86
Gilt & Fixed	6	50.75	50.80	54.04	-0.2	8.84
Income	6	54.82	55.78	59.34	+0.36	4.57
Japan Growth	6	65.95	66.37	70.61	+0.13	0.00
Managed	6	58.53	59.44	63.23	+0.23	2.08
Money Market	6	55.29	55.29	58.60	+0.02	12.99
North American	6	61.90	63.153	67.18	+0.15	0.41

Midland FSAVCS Unit Trust

British	6	55.86	56.54	60.15	+0.37	3.07
European Growth	6	64.76	64.87	69.01	+0.87	0.86
Gilt & Fixed Int	6	49.22	49.27	52.41	-0.19	8.86
Income	6	54.66	55.65	59.20	+0.37	4.58
Japan Growth	6	67.24	67.66	71.98	+0.13	0.00
Managed	6	56.63	57.51	61.18	+0.22	2.09
Money Market	6	52.42	52.42	55.56	+0.01	12.99

Hong Kong Acc	5	47.32	47.32	50.46	-0.24	2.83
Hong Kong Inc	5	45.16	45.16	48.16	-0.23	2.83
Swiss Equities Acc	5	40.90	40.90xd	43.88	+0.46	1.04
Swiss Equities Inc	5	40.55	40.55xd	43.51	+0.46	1.04
W'wide Bond Acc	5	57.24	57.24	60.40	+0.42	5.62
W'wide Bond Inc	5	54.45	54.45	57.46	+0.4	5.42
Emerging Asia Acc	5	101.0	101.1	108.30	+1.5	0.00
Emerging Asia Inc	5	101.0	101.0	108.30	+1.5	0.00
UK Money Mkt Acc	0	51.23	51.23	51.23	+0.01	14.00
UK Money Mkt Inc	0	51.23	51.23	51.23	+0.01	14.00
Thailand Inc	5	52.49	52.49	56.22	+0.98	0.54
Thailand Acc	5	52.49	52.49	56.22	+0.98	0.54

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

PM Equity Gth	5	116.9	116.9	124.3	+0.6	3.56
PM Income & Gth	5	95.13	95.13	101.2	+0.3	4.32

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♦ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4404						
Wellington Income	5¼	135.9	137.5xd	146.3	+0.5	5.21
Wellington Growth	5¼	226.3	228.3xd	242.9	+1.7	1.34
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex UK Garth	4¼	107.1	110 6	115.2	.....	4.30
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger & F.	2¼	61.76	61.76xd	63.35	+0.03	0.00
Short Dtd Gilt ♦F	1¼	82.01	82.01	83 19	-0.04	7.17
D.S. Conmmg Bond ♦F	1¼	5.5771	.5771xd	.5847	[illegible]	0.00
Willbro Financial Services Ltd (0905)F						
PO Box 515 Austin Friars, London EC2 01-588 7511						
Aust Friars W'wide	5	198.7	202.4	215.3	+6.2	2.45
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Convtbl & Equity	5	55.03	58.27xd	61.98	.....	7.59
European	5	77.86	78.29	83.22	.....	0.10
Far Eastern	5	62.74	70.68	75.19	.....	0.62
Growth Inc	5	75.63	79.29	84.35	.....	1.62
Growth Acc	5	75.70	79.36	84 42	.....	1.62
Income Inc	5	74.15	76.52	81.40	.....	5.19
Income Acc	5	74.25	76 62	81.51	.....	5.15
Property Share	5	46.69	46.69	49.77	.....	1.11
Smaller Co's	5	49.72	49.72	52.81	.....	1.84
Nth American	5	65.19	65.19	69.72	.....	1.56
International	5	49 64	49 64	53 08	.....	1.38
Asset Value	5	158.78	158.78	169.81	.....	4.43
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Intl Growth	5	114 98	114 98	121.03	+2.18	3 87
UK Growth	5	92.05	92.05	96 90	-0.36	3 10
UK Income	5	97 13	97 13	102.24	+1.36	4.40
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250						
Yorkshire General	5¼	55 82	57.41	62.07	+0 18	2.85
YUTM UK Eq Inc Inl	5¼	56.93	58 64	62.38	+0.36	4 73
YUTM Intl Grth Tst	5¼	58.25	58.25	62.16	+0.14	0.69

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gr's
Baillie Gifford & Co Ltd				
Int'l Expt November 15	554.2	574.8	.....	0 68
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Inv Fund Oct 31		512.35	.....	4.98
Fxd Int Sec Oct 31		136.45	.....	10.48
Deposit Oct 31		100 00	.....	14 22
Charinco/Charishare‡‡ (1000)F				
33 King William Street, EC4R 9AS 01-280 2800				
C'inco Inc Nov 29	157.2	161.9xd	-4.50	9 90
C'inco Acc Nov 29	678.3	696 1xd	-0.80	9 90
C'share Inc Nov 29	153.0	159.1xd	+2.00	3.85
C'share Acc Nov 29	171.9	178.8xd	+4.80	3.85
CAFINVEST—Charities Aid Foundation				
48 Pembury Rd, Tonbridge TN9 2JD 0732 771333				
Balanced Growth	51 33	52.84	.....	4 00
Income	49 06	50.07	.....	8.00
Charities Official Invest. Fund‡‡				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Income Oct 31		489.94	.....	5 23
Accum Oct 31		1657.68	.....	-
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American Nov 29	150.3	154.4	+2.8	1 45
Managed Nov 29	140.3	145.6	+3.8	1.98
Japan Nov 30	158.7	164.7	+5 6	0.13
Pacific Nov 24	560.2	575 6	+9.1	0.18
Sm Jap Cos Nov 24	509 7	523.7	+139.4	0.07

INSURANCES

Continued on next page

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	Bid Price	Offer Price	+ or -	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	123.0	130.0	.....	–
Building Soc. Fd	177.0	187.0	.....	–
Balanced	281.0	296.0	+1.0	–
European	197.0	208.0	+2.0	–
GT Managed	187.0	197.0	+2.0	–
Gartmore Mngd	130.0	137.0	+1.0	–
German	157.0	166.0	+1.0	–
Gilt	172.0	182.0	.....	–
Global	49.0	52.0	.....	–
High Inc	106.0	112.0	+2.0	–
International Equity	200.0	211.0	+2.0	–
Japan	292.0	308.0	-1.0	–
Managed	57.0	60.0	.....	–
Property	298.0	314.0	.....	–
R. W. Imperial Gold	147.0	155.0	.....	–
UK Equity	317.0	334.0	+1.0	–
Pension Funds				
American	151.0	159.0	.....	–
Building Soc. Fd	181.0	191.0	.....	–
Balanced	219.0	231.0	.....	–
European	193.0	204.0	.....	–
German	136.0	144.0	.....	–
Gilt	153.0	162.0	.....	–
International Equity	142.0	150.0	.....	–
Japan	146.0	154.0	.....	–
Managed	62.0	66.0	.....	–
Property	228.0	240.0	.....	–
UK Equity	303.0	319.0	.....	–
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton 0703 232323				
Pensions Managed Fund	94.81	100.21	.....	–
Pensions Cash Fund	82.14	86.46	.....	–
Prolific Life & Pensions Ltd				
Stramongate, Kendall, Cumbria LA9 4BE 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				
Balanced Gwth Mngd	610.5	643.4	+4.6	–
Adventurous Mngd	132.5	140.7	+1.0	–
Secure Mngd	110.9	116.9	+0.5	–
Cash Fd	241.9	255.0	.....	–
Property Fund	299.5	315.6	.....	–
Equity Fund	691.8	729.0	+6.8	–
Fxd. Int. Fund	293.1	308.9	.....	–
International	338.1	359.7	+3.3	–
High Income	445.3	473.7	+7.6	–

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Holborn Pensions Ltd—Contd.				
Index Linked Gilt	202.2	212.9	.....	–
Guaranteed	13.93		.....	–
International Money	213.5	224.8	-0.4	–
North American	83.4	87.8	+0.3	–
Japanese	169.6	178.6	+0.9	–
European	111.7	117.6	+1.4	–
Special Situations	109.2	115.0	+0.5	–
Communications	103.4	108.9	+0.3	–
Smaller Companies	107.4	113.1	+0.9	–
International Small Cos	144.2	151.8	+0.7	–
Prudential Pensions Limited				
Holborn Bars, London EC1N 2NH 01-548 3281				
Discretionary Nov 8	£159.52	164.53	.....	–
Equity Nov 8	£166.95	173.01	.....	–
International Nov 8	£29.07	29.72	.....	–
Intl Bond Nov 8	£13.01	13.18	.....	–
Fixed Int Nov 8	£74.03	74.89	.....	–
Index Linked Nov 8	£63.25	64.05	.....	–
Property Nov 8	£116.58	123.48	.....	–
Cash Nov 8	£22.1650	22.1650	.....	–
Pre-Linked Retirement Plan				
Managed Nov 28	388.9	405.2	+5.8	–
Cash Nov 28	208.4	217.1	+0.6	–
Prudential Pensions Investment Account				
Pens Mngd Nov 29	156.1	167.8	+0.1	–
Pens UK Eq Nov 29	284.0	305.7	-0.9	–
Pens Intl Nov 29	206.4	222.1	+1.9	–
Pens Fixed Nov 29	170.0	179.4	+0.2	–
Pens Index Lk Nov 29	162.5	171.6	.....	–
Pens Cash Nov 29	136.0	143.2	+0.3	–
Regency Life Assurance Co Ltd				
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800				
Aggressive Ptflio Fd	119.7	125.9	+0.4	–
Balanced Ptflio Fd	312.4	328.8	+0.7	–
Cautious Ptflio Fd	123.5	129.9	.....	–
Elite Fund	105.9	111.4	+0.7	–
European Fund	95.6	100.6	-0.2	–
Far East Fund	115.7	121.7	+0.4	–
Fixed Interest Fund	247.4	260.4	-0.6	–
International Fund	294.2	309.6	-0.5	–
Money Fund	182.7	192.3	.....	–
N. American Fd	127.0	133.6	-0.4	–
Property Fund	390.0	410.5	+1.4	–
UK Equity Fd	369.8	389.2	+2.1	–
A I M. Brewin Dipl Fd	101.0	106.3	.....	–
Swiss Select Ins	118.9	125.2	.....	–

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
133¾	124	Treas 2pc IL '90(84.6)	133	+⅛	2.09	9.98
99	98	Exch 11pc 1990‡‡	99	.....	11.10	14.73
101	99	Exch. 12½pc 1990	99	–⅛	12.59	14.66
96	91	Treas. 3pc 1990	96	.....	3.12	12.22
97¾	95	Treas 8¼pc 1987–90‡‡	97xd	.....	8.49	13.92
98	95¼	Treas. 8pc Cv 1990 ‡‡	96		8.29	14.00
98	96	Treas. 10pcCv 1990	96		10.33	13.81
93	87	Exch 2½pc 1990	92		2.70	10.64
101	98	Treas 11¾pc 1991	98		11.98	13.61
93¾	89¾	Funding 5¾pc '87–91‡‡	92½	–¼	6.21	11.83
90	86	Treas. 3pc 1991	90	–¼	3.32	10.43
100	95½	Treas 10pc Cv '91 ‡‡	95	–¼	10.42	12.84
101	96	Exch. 11pc 1991	97	–⅛	11.32	12.68
94	91	Treas. 8pc 1991	92xd	–⅛	8.70	12.62
106	100	Treas 12¾pc 1992‡‡	100		12.66	12.33
99½	95	Treas 10pc 1992	95		10.47	12.32
94	90	Treas. 8pc 1992 ‡‡	91	–⅛	8.75	12.28
100¾	96	Treas 10½pc Cv 1992‡‡	96⅝		10.86	12.13
85⅝	82¼	Treas. 3pc 1992	84xd		3.56	10.22
105	100¼	Exch. 12¼pc '92	100¼	–¼	12.22	12.12
109¾	103	Exch 13½pc 1992	103	–¼	13.04	11.97
94	90	Treas 8¾pc 1993	90		9.10	11.78
100	95½	Treas 10pc 1993‡‡	95½	–¼	10.47	11.62
108¾	102	Treas 12½pc 1993‡‡	102	–¼	12.23	11.71
88	84	Funding 6pc 1993‡‡	85⅝		6.98	10.59
113¾	106	Treas 13¾pc 1993‡‡	106		12.87	11.56
94¾	89¾	Treas. 8½pc 1994	90		9.43	11.51
117	110	Treas 14½pc 1994‡‡	110		13.15	11.38
113	106	Exch 13½pc 1994	106		12.65	11.49
100⅝	95	Treas. 10pc Ln. 1994‡‡	95xd		10.48	11.30
110¼	103½	Exch. 12½pc 1994	103½		12.07	11.47
96	91	Treas 9pc 1994‡‡	91		9.83	11.25

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
108	102½	Treas 12pc 1995	102½		11.74	11.40
79¾	72	Exch 3pc Gas 90–95	75½		3.97	8.79
101	95	Exch. 10¼pc 1995	95		10.71	11.27
113	106	Treas 12¾pc 1995‡‡	106		11.95	11.17
119	111	Treas. 14pc '96	111		12.57	11.36
97½	91	Treas.9pc 1992–96‡‡	91	–¼	9.89	11.01
126	118	Treas 15¼pc 1996‡‡	118		12.89	11.18
117	109	Exch 13¼pc 1996‡‡	109		12.11	11.16
101	94	Conversion 10pc 1996	95		10.51	11.01
118½	110	Treas 13¼pc 1997‡‡	110		12.01	11.08
104	97	Exch 10½pc 1997	97		10.77	11.00
95	88¾	Treas 8¾pc 1997‡‡	89		9.78	10.78
128⅝	119	Exch 15pc 1997	119		12.56	11.22
100	93	Exch. 9¾pc 1998	93		10.39	10.89
84	78	Treas 6¾pc 1995–98‡‡	79	–¼	8.47	10.44
134	124	Treas. 15½pc '98‡‡	124		12.43	11.03
113	105	Exch. 12pc 1998	105		11.34	10.97
100¼	93	Treas 9½pc 1999‡‡	93		10.16	10.61
115	107	Exch. 12¼pc 1999	107		11.40	10.94
105⅝	97	Treas. 10½pc 1999	98		10.70	10.82
104	96	Conversion 10¼pc 1999	96		10.60	10.80
94	86	Treas. 8½pc Ln 2000‡‡	87		9.72	10.53
97	90	Conversion 9pc 2000‡‡	90		9.94	10.53
122	112	Treas. 13pc 2000	112		11.52	10.92
103	95	Treas 10pc 2001	95		10.44	10.63
124	115	Treas. 14pc '98–01	115		12.14	11.16
102	94	Conversion 9¾pc 2001	94		10.32	10.58
113	105	Exch. 12pc '99–02	105		11.38	11.02
104	96	Conversion 10pc 2002	96		10.38	10.53
102	94½	Treas 9¾pc 2002	94½		10.29	10.50
97	89	Exch. 9pc 2002	89		10.01	10.43
126	116	Treas. 13¾pc 2000–03	116		11.73	10.96
105	97	Treas 10pc 2003	97		10.29	10.39
113	104	Treas. 11½pc 2001–04	104		10.99	10.77
106	97	Treas. 10pc 2004	97		10.26	10.34
59	54	Funding 3½pc '99–04	54		6.38	9.16
102	94	Conversion 9½pc 2004	94		10.09	10.27

Over Fifteen Years

BRITISH FUNDS—Contd

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
103	94	Conversion 9½pc 2005	94	–½	10.07	10.23
111¾	102	Exch. 10½pc 2005	102		10.29	10.22
125	114	Treas. 12½pc 2003–05	114		10.87	10.43
90⅝	82⅝	Treas. 8pc 2002–06‡‡	82		9.67	10.15
118	109	Treas. 11¾pc 2003–07	109		10.76	10.44
96	87	Treas 8½pc 2007 ‡‡	87		9.70	10.00
134⅝	122	Treas. 13½pc '04–08	122		10.97	10.37
101	91	Treas. 9pc 2008 ‡‡	91	–½	9.77	9.93
93	91	Treas. 9pc 2008 B	91	–½	9.77	9.93
92	83½	Treas 8pc 2009	83		9.55	9.88
102	92	Conv 9pc Ln 2011 ‡‡	92		9.74	9.85
68	61	Treas. 5½pc 2008–12‡‡	61		8.85	9.62
89⅞	80	Treas. 7¾pc 2012–15‡‡	80		9.58	9.80
132	119	Exch. 12pc '13–'17	119xd		10.04	9.87

Undated

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
45⅝	40⅝	Consols 4pc	40⅝	–¼	9.91	–
40⅝	35¾	War Loan 3½pc‡‡	35¾xd	–¼	9.79	–
70	60¾	Conv. 3½pc '61 Aft	61	–¼	5.69	–
41	31	Treas. 3pc '66 Aft	31		9.39	–
30¼	25	Consols 2½pc	25⅝		9.85	–
29½	25	Treas. 2½pc	25		10.00	–

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or –	(1)	(2)
112¼	103	Tr. 2pc '92‡‡(97.8)	111	.....	3.07	4.24
105	94	Do. 2 '94 (102.9)	104	.....	2.94	3.54
155	139¼	Do. 2pc '96(67.9)	153⅝	.....	3.05	3.46
130	118	Do 2½pc '01(78.3)	128	.....	3.50	3.77
127	115	Do. 2½pc '03(78.8)	125		3.60	3.83
131	117	Do. 2pc '06(69.5)	128		3.62	3.81
123	110¼	Do. 2½pc '09(78.8)	119		3.62	3.80
128	114	Do. 2½pc '11(74.6)	124		3.61	3.77
106¼	95¼	Do. 2½pc '13(89.2)	103	.....	3.60	3.75
115¼	101¼	Do. 2½pc '16(81.6)	111		3.55	3.70
112	100	Do. 2½pc '20(83.0)	109¼		3.50	3.63
95	84	Do. 2½pc '24‡‡(97.7)	92		3.46	3.58

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1989: 112.3 and for October 1989: 117.5.

INT. BANK AND O'SEAS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
108	98	African Dv Bk 11¼Ln 2010	98		11.25	11.25
104¾	95	Asian Dev Bk 10¼pcLn2009	95		10.77	10.85
130	118	Australia 13½pc 2010	118xd	–⅛	11.41	11.19
113	101	Do. 11¾pcLn2015	101		11.16	11.13
110	99	Euro Inv Bk 11pc Ln 2002	99		11.05	11.06
104	95⅛	Do. 10¾pc2004	95		10.91	11.04
119	107	Int-Am Dev Bk 12½pc 2003	108⅛		11.53	11.23
99¾	90	Do. 9¾pcLn 2015	90		10.83	10.91
97½	91	Mlysia 10¾pcLn 2009	91xd	.....	11.36	11.94
120	110	Utd. Mexican States 16½pc 2008	110	.....	15.00	14.90

CORPORATION LOANS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
111½	101½	Birmingham 11½pc 2012	101½xd	.....	11.33	11.30
91	85½	GLC 6¾pc 1990–92	86½xd	.....	7.80	13.90
124½	115½	Leeds 13½pc 2006	115½	.....	11.69	11.36
33	30	Liverpool 3½pc Irred	30xd	.....	11.67	–
95½	92	LCC 6¾pc '88–90	94½	.....	7.14	12.80
30	26	Do. 3pc '20 Aft	28xd	.....	10.71	–
107½	100½	Manchester 11½pc 2007	100½xd	.....	11.44	11.40

COMMONWEALTH & AFRICAN LOANS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
89½	86½	NZ 7¼pc 1988–92	87	.....	8.24	12.10
206	206	S Rhod 2½pc Non-Assd.	206	.....	–	–
84½	84½	Do. 4½pc 87–92 Assd.	84½	.....	5.33	9.33

LOANS

Building Societies

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
100	98	N'wide Anglia 12⅝pc 4.12.89	99	+⅛	[illegible]	15.19
100	99	Do. 12pc 2.1.90	99	....	[illegible]	[illegible]
100	98	Do. 12pc 29.1.90	99	....	[illegible]	[illegible]
100	98	Do. 12pc 26.2.90	99	....	13.00	15.42
100	98	Do. 12pc 19.3.90	99	....	[illegible]	15.37
100	98	Do. 13pc 23.4.90	99		[illegible]	[illegible]
100	98	Do 13pc 14.5.90	99		13.13	15.36
100	98	Do 13pc 4/6/90	99		13.78	15.29
100	99	Do 14pc 2.7.90	99		[illegible]	15.26
100	98	Do. 13pc 23.7.90	99		13.76	15.03
100	98	Do. 13pc 13.8.90	98		[illegible]	14.99
100	98	Do. 13½pc Bds 3.9.90	98		13.53	14.94
107½	98½	Do. 3¾pcIL Ln 2021	107¼	.....	4.34	4.46
107½	99	Do. 4.25pcIL '24	106¼	.....	4.34	4.30

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
47	43	Met. Wtr. 3pc 'B'	45xd	.....	6.67	10.56

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
50	40	Greek 7pc Ass	50	....	3.50	[illegible]
50	40	Do. 6pc 28 Stb. Ass	50xd	....	3	[illegible]
50	40	Do 4pc Mixed Ass	50xd		2	14.00
80	65	Hong '24 Ass	80	....	2.75	13.57
139	126	Hydro Quebec 15pc 2011	126		15.00	11.60
128	114	Ireland 14½pc Ln 2016	114		14.50	12.55
97¼	90	Ireland 9¾pc '91–96	90	+¼	10.80	11.80

AMERICANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
44	26¼	Abbott Laboratories	44	–¼	$1.40	–	[illegible]
579p	361p	Allegheny & W 1c	456p	–6	[illegible]	–	[illegible]
18¾	12	Amax $1	14		[illegible]	–	[illegible]
11	6	Ambase Corp $1	8		[illegible]	–	1.5
15	695p	Amdahl 5c	782p	–17	[illegible]	–	[illegible]
37¾	25½	Amer. Cyanamid $5	33		$1.35	–	[illegible]
25	14	Amer. Express 60c	22		[illegible]	–	[illegible]
28¼	15¼	American T. & T. $1	27	–½	$1.20	–	[illegible]
41⅝	26	Ameritech $1	38		$2.92	–	[illegible]
659p	490p	Asiamerica Equity	583p	–10	–	–	–
22	9⅝	BankAmerica $1	16		60c	–	[illegible]
37	19	Bankers N.Y. $1	30		$2.12	–	[illegible]
66⅝	38⅝	Bell Atlantic $1	65		[illegible]	–	[illegible]

[illegible]

Continued on next page

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

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AMERICANS – Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
15⅛	847p	Hasbro Inc 50c	13⅝	.....	16c	–	0.7
57½	32⅛	Honeywell $1½	50½	+⅛	$2.75	–	3.5
[illegible]	15¼	Houston Inds	21⅞	+¼	$2.96	–	8.6
76	60⅝	IBM Corpn $1¼	63¼	–¼	$4.84	–	4.9
60p	45p	Image Storage/R.Sys.1c	52p	+2	–	–	–
32	18¼	Ingersoll-Rand $2	30¼	+⅛	$1.20	–	2.5
33¼	22½	Lockheed Crpn. $1	24⅛	+⅛	$1.80	–	4.7
[illegible]	12½	Lone Star Inds $1	13	.....	$1.90	–	8.6
27	17½	Louisiana Land 15c	26	+⅛	$1.00	–	2.4
20½	11½	Lowe's 50c	19	–¼	48c	–	1.6
23	15	Manuf. Hanover $1	23⅛	–1	$3.28	–	9.0
[illegible]	13	Merrill Lynch $1	16	.....	$1.00	–	3.8
24¼	19½	Molex Inc	21½	+¼	3.2c	–	–
30⅛	18⅛	Morgan (JP) $2½	27⅝	–½	$1.60	–	3.8
28	24⅛	Morris (Philip)	26	+⅛	$1.13	–	2.7
54½	36¼	NYNEX $1	52⅝	–½	$4.36	–	5.2
44p	16p	N'wide Legal Serv.	20p	–1	–	–	–
24	18¼	PHH Corp	23½	+⅛	$1.16	–	3.1
25	167p	Pacific Agr.	178p	–3	–	–	–
28	15	Pacificorp $3¼	27⅝	–⅛	$2.76	–	6.0
30	16	Pacific Telesis 10c	29	–⅛	$1.88	–	4.0
[illegible]	15	Pall Corp. 25c	21¼	–⅛	48c	–	1.4
55½	39	Pennzoil 83 1/3c	51¼	–⅛	$3.00	–	3.7

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

[illegible] "Tap Stock"
[illegible] Highs and lows marked thus have been adjusted to allow for rights issues for cash
[illegible] Interim since increased or resumed
[illegible] Interim since reduced, passed or deferred
[illegible] Tax-free to non-residents on application
[illegible] Figures or report awaited
[illegible] Not officially UK listed; dealings permitted under rule 535(4)(a)
[illegible] USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities
[illegible] Not officially listed
[illegible] Price at time of suspension
[illegible] Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast
[illegible] Merger bid or reorganisation in progress
[illegible] Not comparable
[illegible] Same interim; reduced final and/or reduced earnings indicated
[illegible] Forecast dividend, cover on earnings updated by latest interim statement
[illegible] Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend
[illegible] Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided
[illegible] No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. † Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	86	....
Craig & Rose £1... y	830	......
Finlay Pkg. 5p.... y	66	......
Holt (Jos) 25p..... y	1330	-5

IRISH

Cap. 8½% Ln. 1991...	£96⅞	......
9pc Cap Ln. 1996...	£96¼	+⅛
Fin. 13% 97/02...	£116	......

Arnotts	400	......
Carrol (P.J.) ...... y	145	......
Hall (R. & H.)	195	......
Heiton Hldgs....... y	67	......
IRG	230	......
United Drug........	145	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5¼
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	20
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines

Lonrho	23
RTZ	45

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Profit-taking hits D-Mark

PROFIT-TAKING hit the D-Mark in Europe and the Far East yesterday. A move to unwind long D-Mark positions against the yen pushed the West German currency below Y80.00 and helped to spark a recovery by sterling against the D-Mark. The dollar also rallied, breaking through resistance at DM1.7850 and rising above DM1.7900 after London closed.

Trading was nervous, with currencies bouncing up and down between resistance and support points on charts, creating a volatile atmosphere. Dealers were uncertain about the immediate direction of the market and whether the D-Mark has reached a peak, or will continue to advance once the wave of profit-taking is out of the way.

The D-Mark closed at Y79.94 against the yen in London, compared with Y80.41 on Tuesday, continuing a move seen earlier in Tokyo where profit-taking had brought the German unit down to Y80.12 at the close, from an opening level of Y80.45.

The pound fell to a low of DM2.7725, but closed unchanged in London at DM2.7925. In early trading the Bank of England supported *sterling by selling dollars* at around $1.5630, but the pound was not under any great pressure against the US currency and closed at $1.5670, compared with $1.5625 on Tuesday. Sterling fell to Y223.35 from Y224.50 against the strong yen and also declined to SFr2.4875 from SFr2.4925 and to FFr9.5300 from FFr9.5350. On Bank of England figures sterling's index fell 0.3 to 86.0.

At the London close the the dollar had fallen to DM1.7825 from DM1.7870, but later rose to DM1.7930. The dollar also fell below support at Y143.00 against the yen, to close at Y142.50 in London, against Y143.70 on Tuesday. Later in New York it rallied back above Y143.00. In London the dollar fell to SFr1.5880 from SFr1.5955 and to FFr6.0800 from FFr6.1025. According to the Bank of England its index declined to 68.9 from 69.2.

A regional US bank, the Southwest Bank of St Louis, which cut its prime rate by ½ per cent to 10 per cent earlier this month, was forced back into line yesterday. Its prime rate was increased to 10½ per cent as hopes faded that the Federal Reserve has again eased its monetary stance.

In New York yesterday the Fed acted as expected by adding liquidity to the banking system. The Fed provided temporary reserves, via overnight repurchase agreements, when Federal funds were trading at 9 per cent, and later added permanent reserves by purchasing all bills for its own account after a five-year note auction.

There was little reaction to news that third-quarter US Gross National Product growth had been revised up to 2.7 from 2.5 per cent, or to the sharp fall of 7.2 per cent in US corporate profits for the same period, the third consecutive quarterly decline. A fall in the US trade deficit was seen to have boosted the rate of growth.

£ IN NEW YORK

Nov.29	Latest	Previous Close
£ Spot	1.5675-1.5685	1.5660-1.5670
1 month	0.84-0.83pm	0.83-0.81pm
3 months	2.39-2.36pm	2.52-2.50pm
12 months	8.38-8.28pm	8.85-8.75pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.29	Previous
8.30 am	85.9	86.4
9.00 am	85.8	86.5
10.00 am	85.9	86.6
11.00 am	86.0	86.5
Noon	86.0	86.5
1.00 pm	86.0	86.4
2.00 pm	86.1	86.3
3.00 pm	86.0	86.3
4.00 pm	86.0	86.3

CURRENCY RATES

Nov.29	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.21774	1.36790
U.S Dollar	7	1.28336	1.14300
Canadian $	12.46	1.49832	1.33308
Austrian Sch.	6½	16.2371	14.3160
Belgian Franc	10¼	48.4533	42.7281
Danish Krone	10½	8.95400	7.89754
Deutsche Mark	6.00	2.30722	2.03396
Neth.Guilder	7.00	2.60265	2.29468
French Franc	10¼	7.87534	6.94542
Italian Lira	13½	1702.15	1502.47
Japanese Yen	3¼	184.098	163.940
Norway Krone	8	8.78717	7.77124
Spanish Peseta	-	148.089	131.468
Swedish Krona	9½	8.22634	7.28432
Swiss Franc	6.00	2.06043	1.81679
Greek Drach.	20½	210.340	186.469
Irish Punt	-	0.884611	0.771045

Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. * All SDR rates are for Nov.28

CURRENCY MOVEMENTS

Nov.29	Bank of England Index	Morgan** Guaranty Changes %
Sterling	86.0	-24.6
U.S Dollar	68.9	-9.2
Canadian Dollar	105.2	+1.9
Austrian Schilling	109.1	+11.6
Belgian Franc	108.6	-4.1
Danish Kroner	107.6	+2.1
Deutsche Mark	117.2	+24.1
Swiss Franc	107.3	+15.5
Guilder	113.6	+15.9
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

OTHER CURRENCIES

EURO-CURRENCY INTEREST RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EMS EUROPEAN CURRENCY UNIT RATES

EXCHANGE CROSS RATES

FINANCIAL FUTURES AND OPTIONS

CHICAGO

LONDON (LIFFE)

PHILADELPHIA SE £/$ OPTIONS

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS : 37,712

A=Ask B=Bid C=Call P=Put

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2258.0	2275.0	2250.0	2254.0
Mar	2301.0	2313.0	2296.0	2297.0
Jun	2340.0			2336.0

Estimated volume 6226 (6211)
Previous day's open int. 33627 (34077)

MONEY MARKETS

London rates steady

THERE WAS little movement in London interest rates yesterday in spite of concern about the level of UK inflation, following Tuesday's comments by Mr John Major, the Chancellor, and his warning about a disappointing retail price index for November.

UK clearing bank base lending rate 15 per cent from October 5

Three-month interbank was quoted at 15¼-15⅛ per cent, compared with 15¼-15⅛ late Tuesday, as sterling remained below DM2.80 but did not show any further sharp decline. On Liffe March short sterling fell to 85.61 from 85.69.

The Bank of England initially forecast a money market credit shortage of £550m, but revised this to £500m at noon and to £450m in the afternoon. Total help of £465m was provided. Before lunch the authorities bought £177m bills, by way of £127m bank bills in band 1 at 14⅞ per cent and £50m Treasury bills in band 2 at 14⅞ per cent.

In the afternoon another £168m bills were purchased, via £33m Treasury bills in band 1 at 14⅞ per cent; £55m Treasury bills in band 2 at 14⅞ per cent; and £91m bank bills in band 2 at 14⅞ per cent. Late assistance of £120m was also provided.

Bills maturing in official hands, *repayment of late assistance* and a take-up of Treasury bills drained £194m, with Exchequer transactions absorbing £180m and a rise in the note circulation £170m. These factors outweighed bank balances above target of £20m.

In Frankfurt call money was steady at 7.20 per cent and dealers do not expect any change in the Bundesbank's official interest rates in the near future. The recent strength of the D-Mark has eased fears about rising West German inflation, in spite of concern about the inflationary implications of the relaxation of travel restrictions from East Germany.

The Bundesbank council meets today and is likely to keep its credit policies unchanged, but the central bank is expected to maintain a fairly restrictive monetary policy over the next few months until the situation in East Germany becomes clearer.

In Brussels the Belgian National Bank nudged rates a little higher at this week's auction of liquidity under 14-day securities repurchase agreements. The rate rose to 9⅞ from 9¾ per cent as the Belgian franc remained slightly above the lira at the bottom of the European Monetary System.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BASE LENDING RATES

	%		%		%
ABN Bank	15	Clydesdale Bank	15	NatWestminster	15
Adam & Company	15	Comm.Bk.N.East	15	Northern Bank Ltd	15
Allied Trust Bank	15	Co-operative Bank	*15	Norwich Gen. Trust	15
Allied Irish Bank	15	Coutts & Co	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Cyprus Popular Bk	15	Provincial Bank PLC	16
Associates Cap Corp	14	Dunbar Bank PLC	15	R. Raphael & Sons	15
Authority Bank	15	Duncan Lawrie	15	Roxburghe G'rantee	15½
● B & C Merchant Bank	15	Equatorial Bank plc	15	Royal Bk of Scotland	15
Bank of Baroda	15	Exeter Trust Ltd	15½	Royal Trust Bank	15
Banco Bilbao Vizcaya	15	Financial & Gen. Bank	15	● Smith & Williams Secs.	15
Bank Hapoalim	15	First National Bank Plc.	16	Standard Chartered	15
Bank Credit & Comm	15	● Robert Fleming & Co.	15	TSB	15
Bank of Cyprus	15	Robert Fraser & Ptnrs.	15½	United Bk of Kuwait	15
Bank of Ireland	15	Girobank	15	United Mizrahi Bank	15
Bank of India	15	● Guinness Mahon	15	Unity Trust Bank Plc	15
Bank of Scotland	15	HFC Bank plc	15	Western Trust	15
Banque Belge Ltd	15	● Hambros Bank	15	Westpac Bank Corp.	15
Barclays Bank	15	Hampshire Trust Plc	15½	Whiteaway Laidlaw	15
Benchmark Bank PLC	15	Heritable & Gen Inv Bnk.	15	Yorkshire Bank	15
Brit Bk of Mid East	15	● Hill Samuel	§15		
● Brown Shipley	15	C. Hoare & Co.	15		
Business Mtge Bank PLC	15½	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
		Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		

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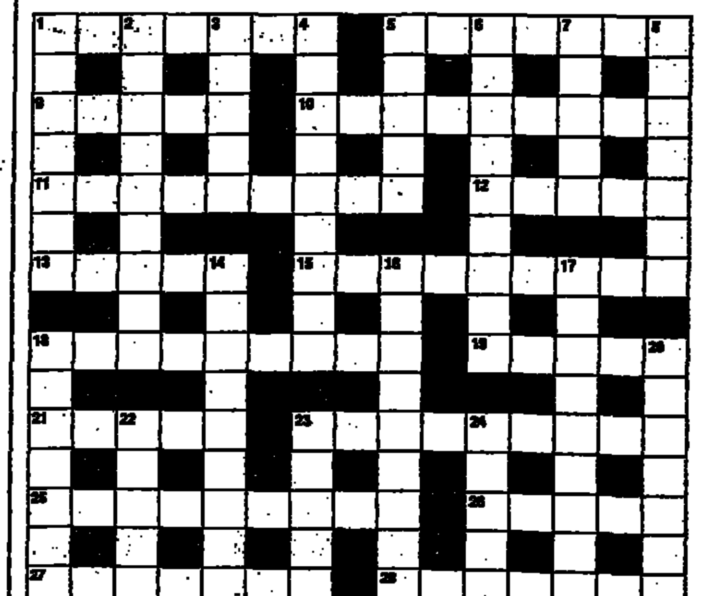
JOTTER PAD

CROSSWORD

No.7,103 Set by DINMUTZ



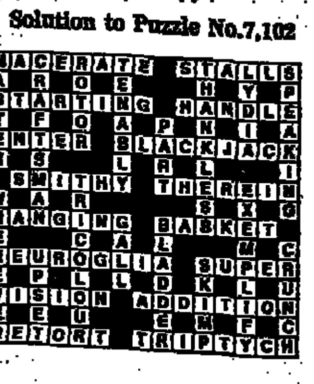
ACROSS

1 Positive firm (7)
5 Joint top-of-bill died in the Big Apple, we hear (7)
9 Operatic heroine taking in a US resort.... (5)
10 .....as one on beach, suffering heat-burns? (9)
11 What we may do to a continental temporary bed? (5-4)
12 Pound advantage is the projection (5)
13 Moderate interval in which there is a dash (3-2)
15 Bird barred, set free (9)
18 Ben's dirt's mixed in the soup ingredient (5-4)
19 Cross at foot of letter backfires (5)
21 Pledge made in West Rotherham (5)
23 Metro name adopted for a T-tube (9)
25 See first at Bath having girth adjusted? It is a plant! (9)
26 Type of 12 for unmarried ladies (5)
27 New York city of Orkneys? (7)
28 West Country tipple — try two packs — extremely pricey (7)

DOWN

1 Formerly, a girl doctor in tricky deals (9)
2 Kidney-card? (9)
3 Motor excursion (5)
4 Modern music sure to upset conversation (9)
5 Standard of big guns, say.... (5)
6 .....no big gun fawns round everybody (5-4)
7 A penny gone underground? What a pest! (5)
8 The German left the river (7)
14 Amount, we hear, spent at pub in olden times? (4-5)
16 Having appointments to go round school, sets off (9)
17 Outcome of huff with draught? (9)
18 Abuse of a power source (7)
20 Beetle about after dark putting lights out (7)
22 One account in trouble, deep water (5)
23 Priest puts up amount (including silver) (5)
24 Penny-pincher renovates semi on river (6)

Solution to Puzzle No.7,102



WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · FRANCE (continued) · GERMANY · GERMANY (continued) · ITALY · ITALY (continued) · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · AUSTRALIA (continued) · HONG KONG · SINGAPORE

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO

2pm prices November 29

Quotations in cents unless marked $.

‡ – No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Nov. 28	Nov. 27	Nov. 24	Nov. 23	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2702.03	2694.97	2675.55	(c)	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.53	93.53	93.54	(c)	94.15 (3/8)	87.35 (3/3)	–	–
Transport	1177.28	1178.34	1176.03	(c)	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	223.03	222.46	221.58	(c)	225.83 (30/11)	181.84 (4/20)	227.83 (22/1/87)	10.50 (8/4/32)

◆Day's High 2715.02 (2713.95) Low 2677.26 (2663.40)

STANDARD AND POOR'S

	Nov. 28	Nov. 27	Nov. 24	Nov. 23	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	345.77	345.61	343.97	(c)	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	395.27	394.88	392.98	(c)	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	32.79	32.83	32.70	(c)	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	191.34	190.13	190.29	(c)	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	375.10	374.04	373.14	(c)	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	456.66	455.17	456.65	(c)	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov 24	Nov 17	Nov 10	year ago (approx.)
Dow Industrial Div. Yield	3.97	3.93	3.94	3.82

	Nov 22	Nov 15	Nov 8	year ago (approx.)
S & P Industrial div. yield	2.98	2.98	3.00	3.27
S & P Indl. P/E ratio	14.51	14.40	14.29	12.39

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Chevron	3,656,200	67¾	– ½
Exxon	2,511,100	47⅝	+ 1
P Svc N H	2,453,300	3½	– ⅛
Gen Electric	2,069,600	61¼	+ ½
Philip Morris	1,648,100	41½	----
Texaco	1,514,900	54¼	+ ⅞
Unocal Corp	1,398,300	28¼	+ ⅜
McDonalds	1,305,900	32⅝	– ⅛
SmKline B Un	1,295,700	39¼	+ ¼
Am Express	1,231,400	35⅛	+ ⅝

TRADING ACTIVITY

† Volume Millions	Nov 28	Nov 27	Nov 24
New York	153.770	149.390	86.290
Amex	12.543	11.289	6.631
NASDAQ	125.338	108.176	53.676
Issues Traded	1,986	1,970	1,891
Rises	818	859	914
Falls	637	596	457
Unchanged	531	515	520
New Highs	56	75	62
New Lows	35	28	21

CANADA TORONTO

	Nov 28	Nov 27	Nov 24	Nov 23	1989 HIGH	1989 LOW
Metals & Minerals	3346.85	3339.24	3342.52	3337.66	3919.2 (1/9)	3207.5 (3/1)
Composite	3926.79	3930.70	3933.48	3915.77	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	1992.66	1997.75	2001.45	1993.68	2069.68(10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Nov. 29	Nov. 28	Nov. 27	Nov. 24	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1607.5	1600.4	1614.1	1615.9	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	807.2	805.8	821.4	822.9	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	414.99	415.95	414.14	409.08	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6562.73	6565.62	6571.81	6574.12	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	354.12	356.94	358.59	359.26	359.26 (24/11)	275.49 (27/2)
FINLAND						
Unitas General (1975)	600.3	590.5	590.2	591.4	815.8 (18/4)	580.8 (23/11)
FRANCE						
CAC General (31/12/82)	523.6	524.2	522.8	519.6	561.6 (11/10)	417.9 (4/1)
Ind. Tendance(30/12/88)	120.6	120.0	119.7	119.4	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	663.61	656.53	660.60	655.28	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	1953.6	1931.7	1945.9	1932.8	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1562.27	1550.40	1554.37	1555.51	1658.12 (11/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2751.48	2760.08	2777.10	2808.53	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1700.40	1685.78	1678.82	1678.81	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	668.32	667.27	670.71	670.36	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	37021.46	36985.30	36881.53	36484.47	37021.46 (29/11)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2815.98	2799.94	2795.38	2759.60	2815.98 (29/11)	2366.91 (6/1)
2nd Section (4/1/68)	3693.81	3693.70	3698.61	3708.07	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Trl.Rtn.Gen.(End 1983)	255.1	254.6	254.8	253.4	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	195.9	195.4	195.6	194.5	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	618.59	613.49	612.23	615.54	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1317.86	1343.25	1352.10	1369.41	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1410.13	1404.06	1393.65	1385.27	1431.85 (12/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2027.0 ◆	2066.0	2135.0	2149.0	2149.0 (24/11)	1291.0 (15/2)
JSE Industrial (28/9/78)	2558.0 ◆	2558.0	2573.0	2578.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	898.00	893.85	896.61	907.44	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	304.56	305.66	304.10	301.13	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4008.4	3962.0	3899.2	3875.4	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	759.9	754.9	755.0	754.0	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	9630.28	9040.09	9588.07	9878.61	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	771.92	760.07	755.97	751.58	792.20 (21/11)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	543.9	543.6	538.8	551.2 (5/9)	487.6 (13/6)

**Saturday Nov.25: Taiwan Weighted Price: 9773.56. Korea Comp Ex. 905.89.

◆ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday November 29 1989

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	116.25m	845	+32
Sumitomo Mt Ind	108.6m	881	+17
NKK	96.4m	845	+32
MHI	55.4m	1,230	+40
Mitsui E&S	41.6m	963	+27
Kobe Steel	37.0m	836	+18
Hitachi Zosen	34.8m	910	+12
Kawasaki Steel	31.6m	884	+16
KHI	30.5m	1,160	+40
Toshiba	26.6m	1,280	+70

3pm prices November 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	22⅞	AAR	.48	1.4	22	69	35¾	35¼	35½	– ⅛
9⅝	8⅞	ACM n	1.01	11.		103	9½	9⅜	9½	
11⅝	10¼	ACMIn	1.26	11.		373	11⅜	11¼	11⅜	+ ⅛
10⅛	8	ACM M n	1.01	11.		708	9	8⅞	9	
11½	10	ACM Sc	1.26	11.		2213	11⅛	11	11⅛	
9⅝	8⅞	ACMSp	1.01	11.		573	9¼	9⅛	9¼	+ ⅛
18	11½	AL Lab	.12	.8	16	22	16	16	16	
4⅛	3⅛	AMCA	.12e	3.4	33	13	3½	3½	3½	
6⅛	4½	AM Intl			11	549	5¼	4⅞	5⅛	+ ⅛
23½	19⅞	AM In pf	2	9.9		23	20¼	20	20¼	+ ⅛
107¾	48⅝	AMR			8	3098	65¼	64⅛	64¼	– ⅞
6½	3⅝	ARX				37	3¾	3⅝	3¾	+ ⅛
57½	37⅞	ASA	3a	5.5		723	55⅛	54⅜	54⅜	– ¾
30⅛	15¼	AVX	.24	.8	29	200	29⅝	29⅛	29⅜	+ ¼
70⅛	44½	AbtLab	1.40	2.0	19	1348	69⅝	69¼	69½	– ⅛
18¼	12¼	Abitibi g	1			77	12⅞	12¾	12¾	– ¼
13	7⅝	AcmeC	.40	4.2	12	38	9⅝	9½	9½	– ¼
9⅛	5⅞	AcmeE	.32	3.9	11	10	8¼	8¼	8¼	
38½	20⅛	Acuson			22	3841	35½	33½	33⅝	–2⅛
15⅝	12⅞	AdaEx	2.09e	13.		63	15½	15⅜	15½	
12⅝	6½	Adobe				82	12⅛	12	12⅛	– ¼
19⅝	16½	Adob pf	1.84	9.8		2	18⅞	18¾	18¾	
21⅝	19⅞	Adob pf	2.40	11.		4	21	21	21	
10½	7⅛	AMD				2227	7⅝	7½	7½	– ⅛
35	28½	AMD pf	3	10.		9	30¼	30⅛	30⅛	– ⅛
10⅛	6⅝	Advest	.16	1.8	13	23	9	8⅞	8⅞	
62½	48	AetnLf	2.76	4.5	10	1407	61⅜	60⅝	61⅛	+ ⅜
[illegible]										

The world's first King Size Filter cigarette

OFTEN IMITATED NEVER EQUALLED

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
3¾	½	vjReyto				20	1⅞	1⅞	1⅞	−⅛
85	65⅝	Raythn	2.20	3.3	9	2883	68¼	67½	67½	−¾
2⅞	15-16	RdgB n				290	2⅛	2	2	−⅛
17	15	REIT	1.38	8.8	11	107	15⅞	15⅝	15¾	+⅛
16⅛	13½	RltRef	1.72	12.	9	6	14¾	14¾	14¾	−¼
12⅝	5½	RecnEq				873	7¼	7⅛	7⅛	
18½	9½	Reebok	.30	1.7	14	4087	18⅛	17¾	17⅞	−⅜
16	10⅞	Reece	.15e	1.4	55	28	11	10⅞	11	−⅛
½	7-64	Regal				87	⅛	3-16	⅛	+1-16
9⅞	8⅞	RegIFn	.25e	2.8		87	8⅞	8⅞	8⅞	
15⅝	12½	ReichTg	1.76	12.	6	6	14⅞	14⅞	14⅞	
8⅝	4¼	RelGrp	.32	6.6		61	5⅛	5½	5⅛	+¼
24⅞	18¼	Repsol n				972	21⅛	21	21	
5⅞	4⅛	RepGyp	.20	4.0	24	10	5	5	5	−⅛
51⅛	41	RepNY	1.28	2.8		576	46¼	46⅛	46½	−¼
16⅞	4⅞	Rexene	1a	16.	3	190	6½	6¼	6¼	−⅛
39⅞	20¾	RayRey	.80	3.1	10	88	25⅞	25½	25½	−⅛
62¼	46⅝	ReyMt	1.80	3.4	6	1168	52¾	52⅛	52¾	+⅛
48½	35	RhP pfC				11	39	39	39	+3
19⅝	18⅝	RhnPl n				2896	u20	19⅞	19⅞	+⅛
41¼	29⅛	RiteAid	.82	2.1	16	120	39⅛	38	38¼	−¼
15-32	⅛	RvrOak				28	5-32	5-32	5-32	
12¾	8⅝	Robtsn				20	11⅞	11¼	11⅞	+⅜
38	22⅞	vjRobins			20	28	36⅞	36½	36¾	
21⅞	16⅞	RochG	1.50	7.0	12	192	u21½	21¼	21⅞	+⅛
45¾	28⅞	RochTl	s1.42	3.5	18	101	40⅞	40¼	40⅞	+¼
22⅛	18½	RckCtr	1.88	8.8	19	246	21½	21⅛	21⅛	
27⅛	19⅝	Rockwl	.78	3.7	7	1464	21⅛	21	21	−⅛
6	4⅞	RodRen				45	6	6	6	
37½	30¼	RoHaas	1.20	3.8	11	154	31⅞	31⅛	31⅛	−⅛
37⅞	19½	Rohr			28	489	21½	21	21	−½
13¼	9½	RollinE	.08	.7		2718	11⅝	11⅛	11⅛	+⅛
21	16⅝	Rollins	.54	3.1	18	25	17⅞	17¼	17¼	
48	38½	Rorer	.84	1.9	21	708	44	43½	43⅞	−⅛
[illegible]										

AMEX COMPOSITE PRICES

3pm prices November 29

[illegible]

NASDAQ NATIONAL MARKET

3pm prices November 29

[illegible]

FINANCIAL TIMES

Thursday November 30 1989

AMERICA

Dow edges higher as other indicators drift downward

Wall Street

THE KEY stock market indices were little changed or lower at midsession yesterday as the equity market continued to show signs of stagnation, *writes Janet Bush in New York.*

Although the Dow Jones Industrial Average has rallied in the previous five sessions, other, broader stock market indices have trailed the blue chip basket badly and drifted sideways in low volume – a bad sign for the market's prospects.

At 2pm yesterday, the Dow stood 0.85 points higher at 2,702.86 on New York Stock Exchange volume of only 88m shares, low even by recent sluggish standards.

At midsession, the Standard & Poor's 500 index, by far the most important benchmark for investors, stood 1.29 points lower at 344.48. The American Stock Exchange index slipped 0.77 point to 374.33 and the Nasdaq Composite was quoted 0.92 point lower at 455.74.

To some extent, the small pull-back in the Dow index by midsession yesterday could be regarded as a healthy development for the market's long-term prospects, mainly because an uninterrupted rally would make the market vulnerable to a sharp set-back at some stage.

Some optimistic equity analysts argued that a period of *consolidation would set the stage for a year-end rally.*

Others are not so sanguine. Corporate profits have already been shown to have slowed sharply and, despite the fact that the economy continues to deteriorate, the US Federal Reserve remains apparently extraordinarily cautious about lowering interest rates to offset this weakness.

Hopes of cuts in prime lending rates to encourage the consumer sector receded further yesterday when Southwest Bank of St Louis finally admitted defeat and raised its prime back to 10.5 per cent.

It cut prime to 10 per cent earlier this month in response to the Fed's easing of its Fed Funds target to 8¼ per cent from 8½ per cent but no major bank followed.

There was little reaction to yesterday's third quarter GNP revisions. GNP was revised up to show an annualised gain of 2.7 per cent from 2.5 per cent reported previously. This was a slightly smaller upward revision than markets had been expecting.

A highlight of yesterday's equity trading was weakness in thrift issues after Great Western Financial said that it expected to report a fourth quarter loss due to difficulties with its commercial real estate loans.

Great Western fell $1¼ to $18 at midsession. Among other savings and loans, CalFed dropped $⅞ to $22⅝, Golden West Financial fell $⅞ to $26⅜ and H.F. Ahmanson slipped $⅜ to $18⅝.

Among featured individual stocks, Philip Morris added $⅝ to $42⅞ on news that it plans to *repurchase more of its common shares.*

Freeport-McMoRan added $⅞ to $31 after news of a major restructuring which calls for the sale of $1.2bn to $1.5bn in assets by the company and three of its affiliates.

Newmont Gold fell $1⅞ to $47⅞ on a judgment by analysts that its parent company – Newmont Mining – is relatively cheap compared with the value of its Newmont Gold holdings.

Aristech Chemical slipped $⅞ to $21⅞ after the company rejected a $25 a share takeover offer from Mr Jon Huntsman, the investor.

Agency Rent-A-Car fell $1¼ to $13 after Alamo Rent-A-Car denied that it had expressed any interest in buying the company.

Canada

LIGHT trading in Toronto saw stocks firm slightly, the composite index rising 7.9 points to 3,934.6 on volume of 15m shares. Declines outnumbered advances by 277 to 218.

Campeau was up 5 cents at C$5 on volume of 649,050 shares. The chairman of Campeau Corp's flagship department store, Bloomingdale's, has been in Japan discussing its sale.

Bombardier class B shares fell 25 cents to C$15 following the release of its third-quarter results, which were largely unchanged.

SOUTH AFRICA

NERVOUS trading saw gold shares continue their downward correction of the past two days following the recent buying spree.

The JSE all-gold index dropped another 39 to a preliminary close of 2,027 following a 69-point fall on Tuesday.

EUROPE

Second thoughts trouble the senior bourses

THE BIGGER bourses were feeling fairly confident in the morning, but most took precautions later as they concerned themselves with interest rates, Wall Street or simple profit-taking, *writes Our Markets Staff.*

FRANKFURT reverted to its hard currency role as the D-Mark rose against the dollar, bonds improved and foreign investors, apparently, took the equity route into the currency. Volume rose from DM4.2bn to DM5.7bn, Siemens and Deutsche Bank led the field and financials in general got more than their share of the action.

Siemens and Deutsche turned over DM773m and DM588m respectively as they rose by DM4.80 and DM5.20 to DM616.50 and DM701.80. Below them, but still prominent in the active stocks list, were Commerzbank, up DM5.50 at DM263.00, Dresdner, DM6.50 higher at DM362, and Allianz, DM55 better at DM2,230.

Profit-taking, and the possibility that the Bundesbank could decide on another interest rate rise today, cut back early gains. The DAX index closed 11.67 higher at 1,562.27 after a 7.08 rise to 663.61 in the FAZ at midsession.

NIXDORF, the troubled West German computer group, fell DM24 yesterday to DM296 in Frankfurt. A business newsletter, Platow Brief, had reported that Siemens had valued the company at DM150 a share and Mannesmann had valued it at less than DM200 a share.

PARIS was in a positive frame of mind until midsession, with the CAC 40 index up 1 per cent at one stage, but Wall Street's lower opening on interest rate worries sent shares drifting off their highs.

It was a more active session: the market had grown tired of stasis, said one analyst. Turnover was estimated at between FFr2bn and FFr2.5bn, compared with Tuesday's FFr1.7bn.

Suez kept its charm, rising FFr7.50 to FFr419.50 on volume of 372,700 shares. After the close, the financial group's subsidiary, Banque Indosuez, said it had sold its 14.9 per cent stake in UK merchant bank Morgan Grenfell to Deutsche Bank at the German bank's bid price of 550p a share.

Paribas gained FFr6 to FFr611 as it appeared to be failing in its attempt to take over Navigation Mixte, which eased FFr1 to FFr1,887. Today is the deadline for the bid.

Eurotunnel rose FFr1.05 to FFr49.95. News of the resignation of Mr Jean-Paul Parayre, director, which came late in the day, was not unexpected, but re-emphasised the difficulties the group is facing.

The OMF 50 index gained 2.90 to 511.84 and the CAC 40 added 12.06 to 1,872.30.

AMSTERDAM moved up in in fairly active trading, although New York's weak opening pulled shares off their day's highs. The CBS tendency index rose 0.5 to 182.7.

Aegon, the insurer, which announced nine-month profits at the top end of expectations, gained 80 cents to Fl 111.50. Its fellow insurer, Amev, added Fl 1.50 to Fl 61.80.

DSM fell 90 cents to Fl 112.80, depressed by recent news that CSFB was lowering its 1990 and 1991 forecasts for the company. Enraf-Nonius, an instrument maker, surged Fl 10.70 to Fl 63.50 on news that it is to be taken over through a stock swap with Oldelft, which added Fl 7 to Fl 175.

MILAN saw a poor close by Generali, which offered no comment on London rumours that it was a stakeholder in the British insurance group, GRE. The shares fell L285 to L41,510 as the Comit index edged up by 1.05 to 668.32 in moderate trade.

Enimont stayed active, climbing to L1,515 after hours against L1,500 on Tuesday. In London, Kleinwort Benson noted that savings shares have outperformed the market.

ZURICH, where the Association of Swiss Exchanges called for a unified bourse yesterday, recovered from a weak opening to close with the Crédit Suisse index 3.7 higher at 620.5.

Ciba-Geigy bearers rose SFr105 to SFr3,745, supported by BZ Bank's Tuesday announcement that it had placed 100,000 covered warrants for registered shares.

MADRID paid the price of recent gains as profit-taking tipped shares lower. The general index eased 0.69 to 304.56.

Valenciana de Cementos gained 350 percentage points to 4,400 per cent of par after Tuesday's news that Aker of Norway had raised its stake to 24.8 per cent. The Spanish securities commission said that it wanted further details to see whether Aker *was legally* obliged to make a full bid.

STOCKHOLM benefited from sharp, early gains, the Affärsvärlden General index closing 11.2 up at 1,163.4. Total turnover reached SKr435m. Speculation over a possible deal with Fiat sent Saab Ince B shares up SKr15 to 237. Other blue chip shares also rose, led by Electrolux, up SKr7 at SKr259.

COPENHAGEN continued its small run of losses in nervous trading. The bourse index eased 2.52 to 354.12. Profit-taking by speculators hit Baltica Holding, which fell DKr70 to DKr780 following Tuesday's news of its share swap with France's Suez group.

OSLO closed with the all-share index 6.23 ahead at 482.45 in moderate trading, on the back of rises in other foreign markets and a dip in the Norwegian interest rate.

BRUSSELS eased, the cash market index closing 2.89 lower at 6,562.73.

Taiwan record rise

A RECORD rise in Taiwan yesterday followed the previous day's worst ever fall, as confidence grew that the ruling party would set a tax on stock transactions at a lower level than originally expected.

The weighted index rebounded 590.19 points, or 6.5 per cent, to 9,630.28, more than regaining Tuesday's lost ground.

All stocks recorded gains, with 171 rising by their 7 per cent limits. Volume rose to 806m shares worth T$99.7bn from 621m and T$75bn.

ASIA PACIFIC

Nikkei clears 37,000 in buoyant trading

Tokyo

INVESTORS stayed positive yesterday, taking the Nikkei average to its sixth consecutive record high, and above the *37,000 mark for the first time, writes Michiyo Nakamoto in Tokyo.*

The market was alive with activity, and volume held its buoyant level at 1.6bn shares, up from the 1.56bn traded on Tuesday. Trading picked up quickly after a cautious opening, and the Nikkei closed 36.16 higher at 37,021.46, after a high of 37,128.86 and a low of 36,935.91.

Once again, the gains were selective; in spite of the rise of the index, declines outnumbered advances by 504 to 445 while 180 issues were unchanged. The broader-based Topix index added 18.04 to a fifth consecutive record of 2,815.98. In London, the ISE/Nikkei 50 index closed 2.37 up at 2,120.82.

Heavily capitalised stocks continued to dominate the active stocks list, on abiding hopes of lower interest rates, with all but one of the top 10 volume slots filled by steels and shipbuildings. Nippon Steel took over from Sumitomo Metal Industries as the most actively traded issue with 116.25m shares. It closed Y33 higher at Y845.

Interest in big issues spread to Nippon Telegraph and Telephone, the huge communications company, which saw its share price plunge after former executives were arrested in connection with a share sale scandal. NTT did not recover on any specific news, but rather on small-lot buying amid a lack of selling. It closed up Y60,000 at Y1.45m.

Laggards were widely selected, particularly among cheap issues at about Y1,000. Toshiba was actively bought and rose Y70 to Y1,280 while Hitachi gained Y40 to Y1,550. Even among electricals, investors were attracted to these lower-priced issues while higher-priced ones were neglected.

Buoyant demand for big issues gave share prices in Osaka a moderate boost, bringing the OSE average up 45.74 to another record of 38,094.35. Volume rose again, to 249.5m shares from the 227m traded on Tuesday. Kansai Electric Power put on Y210 to Y5,100.

Roundup

A MORE positive tone characterised the Asia Pacific region yesterday, although Hong Kong remained fairly depressed.

AUSTRALIA attracted the bargain-hunters, who helped blue chips rise on reduced volume. The All Ordinaries index added 7.1 to 1,607.5, but falls outnumbered rises by 214 to 151. Volume was 87m shares worth A$192m, down from Tuesday's 133m and A$231m.

Futures-related buying and hopes of lower local interest rates also supported gains.

Bond Media regained 3 cents to 18 cents, after falling 5 cents on Tuesday, amid speculation that Mr Kerry Packer or another creditor was planning to swap debt for equity.

Bond Corp lost 3 cents to 28 cents and its associate, Bell Resources, fell 10 cents to 66 cents.

The Bank of Melbourne lost 10 cents *to A$2.80, following a* rise of 25 cents on Tuesday. Westpac, up 4 cents at A$5.24, confirmed that it had bought a stake of almost 6 per cent.

SINGAPORE made it seven advances in a row, although profit-taking trimmed gains. Foreign interest remained strong, and the Straits Times industrial index rose 6.07 to 1,410.18. Turnover grew to 87m shares from Tuesday's 73m.

The most active stock was Kemayan, the plantation company, which gained 3 cents to 88.5 cents on turnover of 10.2m shares on news that it was acquiring land for property development in Malaysia.

HONG KONG declined in quiet trading, after a small gain in the morning. The Hang Seng index lost 8.80 to 2,751.48 in turnover of HK$674m, up from Tuesday's HK$635.5m.

Political squabbling gives Bombay a jolt

R.C. Murthy explains the market's reaction to the defeat of Mr Rajiv Gandhi's party

SHARE PRICES on Indian stock markets extended their decline this week as opposition parties squabbled over the formation of a new government, following the defeat of Mr Rajiv Gandhi's Congress party last week and the emergence of Mr Vishwanath Pratap Singh as front runner to head the first non-Congress administration in nine years.

The fall in share prices was more pronounced on the Bombay Stock Exchange, which accounts for more than half of national trading; the BSE 30-share index fell 20 points to 678.91 on Tuesday. The broad-based 100-share index, which reflects trading on the country's leading stock exchanges, was down by 7 points to 371.72. Yesterday, there were further slight declines, to 676.92, and 370.44, respectively.

Markets are nervous about the potential stability of the Janata Dal Government, which can survive only with the support of left-wing parties and the right-wing Bharatiya Janata Party (BJP). Linked issues include the role of the BJP, a keystone in the new administration, and the attitude to business of Mr Singh, the new Prime Minister, as he seeks to function without being pressured by the BJP, and by left-wing parties.

Share prices fell in Bombay on October 17, when the Gandhi administration announced general elections and the 30-share index dipped below 700. But the market rallied after financial institutions intervened with massive buying, believed to be at the behest of the Government. The index had risen steadily since then to 755 on October 26, but election blues forced it back to 696 last weekend.

By Tuesday, it was 15 per cent below its all-time peak of 800 in early July. It has stayed in relatively high ground because of strong fundamentals and, above all, support from state-owned financial institutions.

India's gross national product is projected to grow by about 5.5 per cent for the second year in succession; industrial production is rising by an annual 9 per cent; and several actively-traded scrips such as Tata Iron and Steel, Tata Engineering and Bombay Dyeing have seen rises on good half-year results.

The market has hailed the statement by Mr Singh, who cracked down on business groups as finance minister under Mr Gandhi, that he would not be vindictive to businessmen if his bid to form a new government succeeded.

However, analysts say that the new government may review the role of state-owned financial institutions in the capital market – and might like to replace chief executives *identified with the Rajiv* Gandhi administration.

IFC EMERGING MARKETS INDICES

Market	No. of stocks	PRICE October 1989	% Change on Sept (Dollar terms)	% Change on Dec 31 '88 (Dollar terms)	October 1989	% Change on Sept (Local currency terms)	% Change on Dec 31 '88 (Local currency terms)	TOTAL RETURN October 1989	% Change on Sept (Dollar terms)	% Change on Dec 31 '88 (Dollar terms)
Latin America										
Argentina	(24)	504.93	−8.4	184.2	1,720,990	−8.4	10,623.5	625.83	−7.7	217.5
Brazil	(56)	137.49	16.9	49.0	218,155.60	60.8	956.7	201.58	17.0	59.3
Chile	(26)	569.13	9.2	24.5	1,188.86	10.8	35.0	941.16	9.8	35.5
Colombia	(21)	218.85	5.9	−0.4	810.91	8.4	25.1	383.11	6.4	6.6
Mexico	(52)	562.83	−7.2	92.0	7,610.11	−5.5	62.6	749.07	−7.1	67.1
Venezuela	(13)	85.59	5.7	−26.1	453.62	9.8	−21.0	102.21	5.7	−24.1
East Asia										
South Korea	(61)	480.16	−5.0	−0.4	389.95	−4.5	−2.3	815.44	−4.8	3.4
Philippines	(18)	2,184.64	6.1	78.4	2,365.95	6.3	84.5	2,682.67	6.1	80.3
Taiwan, China	(62)	1,346.07	0.3	102.2	876.27	1.1	84.4	1,489.44	0.6	105.4
South Asia										
India	(60)	190.69	−4.1	−4.9	256.65	−2.9	6.5	227.37	−3.7	−2.1
Malaysia	(62)	131.77	−5.6	21.0	146.48	−5.3	20.4	157.46	−5.2	24.4
Pakistan	(50)	119.13	−3.5	−2.4	163.24	−3.0	11.1	179.66	−2.6	3.2
Thailand	(29)	332.31	1.8	52.3	314.71	1.6	56.4	714.37	2.2	98.0
Europe/Middle East/Africa										
Greece	(26)	290.85	−1.2	73.2	372.62	−1.2	93.0	470.94	−1.2	86.6
Jordan	(25)	93.35	4.1	−2.9	152.36	7.0	25.8	115.11	4.1	0.1
Nigeria	(15)	(u)	(u)	(u)	(u)	(u)	(u)	(u)	(u)	(u)
Portugal†	(23)	647.86	−6.1	29.6	657.62	−6.0	39.3	1,148.90	−6.1	36.6
Turkey‡	(18)	207.72	9.4	244.5	622.80	11.4	333.7	1,477.55	9.4	414.4
Zimbabwe	(11)	553.95	4.0	13.6	828.42	5.8	31.5	919.64	4.0	25.7

Source: International Finance Corporation. Base date: Dec 31,1984. †Jan 1986=100. ‡Dec 1986=100. (u) unavailable

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

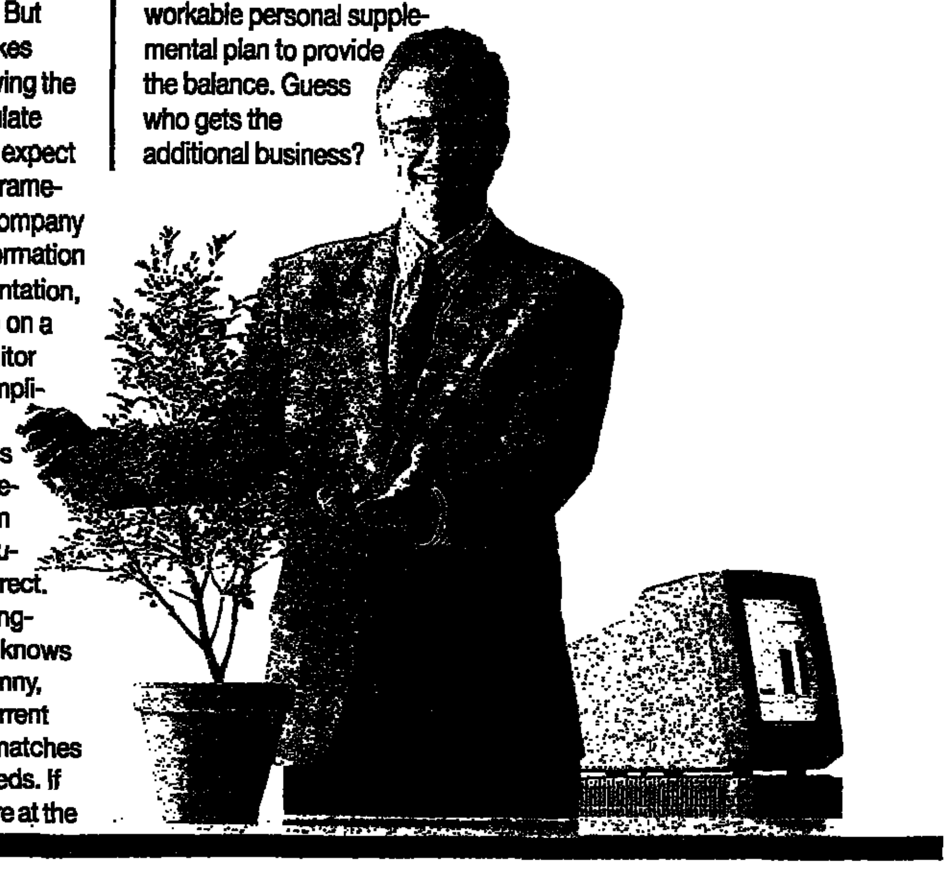
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	TUESDAY NOVEMBER 28 1989 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	MONDAY NOVEMBER 27 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989 High	1989 Low	Year ago (approx)
Australia (85)	144.45	−0.5	137.06	122.16	−0.8	5.56	145.23	137.98	123.11	160.41	128.28	146.97
Austria (19)	147.51	−0.1	139.96	137.65	+0.2	1.77	147.66	140.29	137.41	172.22	92.84	96.37
Belgium (63)	147.26	−0.2	139.73	136.73	−0.2	4.06	147.62	140.25	137.06	147.62	125.58	133.45
Canada (122)	148.90	−0.1	141.26	125.88	+0.0	3.23	148.97	141.53	125.89	154.17	124.67	120.54
Denmark (36)	229.90	−0.9	218.14	217.86	−0.6	1.45	231.98	220.40	219.20	231.98	165.35	153.32
Finland (26)	120.14	+1.0	114.00	106.33	+1.0	2.65	118.90	112.96	105.23	159.16	118.63	136.31
France (126)	138.33	+0.0	131.26	132.42	−0.1	2.81	138.26	131.36	132.57	139.94	112.57	110.66
West Germany (96)	103.20	−0.6	97.92	95.87	−0.7	2.17	103.78	98.60	96.57	103.84	79.56	85.96
Hong Kong (46)	116.64	−0.6	110.67	117.00	−0.6	4.86	117.35	111.49	117.67	140.33	86.41	106.90
Ireland (17)	163.57	+0.5	155.20	156.10	+0.4	2.84	162.76	154.64	155.54	168.69	125.00	130.99
Italy (97)	92.16	−0.5	87.45	90.80	−0.6	2.51	92.60	87.97	91.37	96.73	74.97	85.03
Japan (455)	193.04	+0.0	183.17	175.34	+0.2	0.46	193.11	183.47	174.98	200.11	164.22	189.28
Malaysia (36)	204.23	+0.5	193.79	212.85	+0.7	2.49	203.22	193.07	211.40	209.22	143.35	140.18
Mexico (13)	286.28	−0.4	271.64	832.74	−0.2	0.62	287.54	273.19	834.69	326.61	153.32	180.05
Netherland (43)	131.24	+0.1	124.52	120.78	+0.0	4.41	131.13	124.58	120.75	131.72	110.63	109.24
New Zealand (18)	74.87	+0.0	71.04	67.50	+0.0	5.29	74.84	71.11	67.48	88.18	62.64	70.16
Norway (24)	175.29	+1.0	166.32	162.62	+1.0	1.86	173.55	164.88	161.06	198.39	139.92	125.78
Singapore (26)	163.95	+0.4	155.56	147.78	+0.6	2.02	163.23	155.08	146.91	170.62	124.57	120.43
South Africa (60)	169.11	−1.7	160.46	146.96	−1.7	3.87	172.00	163.41	149.49	173.29	115.35	127.11
Spain (43)	157.81	−0.4	149.74	138.32	+0.2	3.79	158.49	150.58	138.08	169.75	143.14	152.62
Sweden (35)	166.84	+1.9	158.31	158.07	+2.0	2.17	163.70	155.53	154.97	168.94	138.45	135.11
Switzerland (64)	90.44	+0.5	85.81	89.45	+0.0	2.11	89.95	85.46	89.48	94.16	67.81	79.99
United Kingdom (305)	142.91	+0.9	135.60	135.60	+0.8	4.53	141.61	134.54	134.54	158.41	133.28	138.59
USA (545)	140.32	+0.0	133.14	140.32	+0.0	3.31	140.27	133.26	140.27	146.29	112.13	110.40
Europe (994)	127.83	+0.3	121.29	120.27	+0.2	3.49	127.47	121.11	120.08	132.95	112.63	114.79
Nordic (121)	169.15	+0.6	160.49	153.57	+0.8	1.85	168.12	159.72	152.41	178.38	137.95	130.89
Pacific Basin (668)	188.20	−0.1	178.58	170.93	+0.2	0.71	188.31	178.91	170.64	194.72	160.44	184.29
Euro–Pacific (1662)	164.13	+0.0	155.74	150.67	+0.2	1.59	164.05	155.86	150.42	166.98	141.56	156.48
North America (667)	140.73	+0.0	133.53	139.40	+0.0	3.31	140.68	133.66	139.36	146.66	112.79	110.93
Europe Ex. UK (689)	117.47	−0.1	111.46	110.84	−0.2	2.79	117.63	111.76	111.10	118.51	96.30	99.85
Pacific Ex. Japan (213)	130.31	−0.4	123.64	116.45	−0.5	4.96	130.85	124.32	117.04	140.05	111.93	124.74
World Ex. US (1857)	163.73	+0.0	155.35	150.02	+0.1	1.66	163.68	155.51	149.81	166.35	141.49	154.94
World Ex. UK (2097)	155.44	+0.0	147.49	147.82	+0.0	1.97	155.52	147.76	147.74	158.04	136.98	137.80
World Ex. So. Af. (2342)	154.21	+0.0	146.33	146.66	+0.1	2.17	154.15	146.45	146.48	155.92	136.67	137.92
World Ex. Japan (1947)	135.87	+0.1	128.92	131.87	+0.0	3.44	135.76	128.98	131.81	140.43	114.51	113.10
The World Index (2402)	154.30	+0.0	146.41	146.66	+0.1	2.19	154.25	146.55	146.49	155.89	136.68	137.86

Latest prices were unavailable for this edition.

New technology creates new ideas

The service innovation that turns a client advisor into a pension expert.

Calculating pensions can be a formidable task. But Nixdorf's system makes quick work of it, allowing the bank advisor to calculate what a customer can expect to receive within the framework of the state or company plan. All the latest information is prepared for presentation, ready to be called up on a neatly-arranged monitor mask. Otherwise complicated recording of contribution periods is simplified, and an integrated control system ensures that the evaluations are always correct. That ends the guessing-game. The customer knows – down to the last penny, whether his or her current pension entitlement matches anticipated future needs. If not, they are right there at the bank, to put together a workable personal supplemental plan to provide the balance. Guess who gets the additional business?



New technology creates new ideas

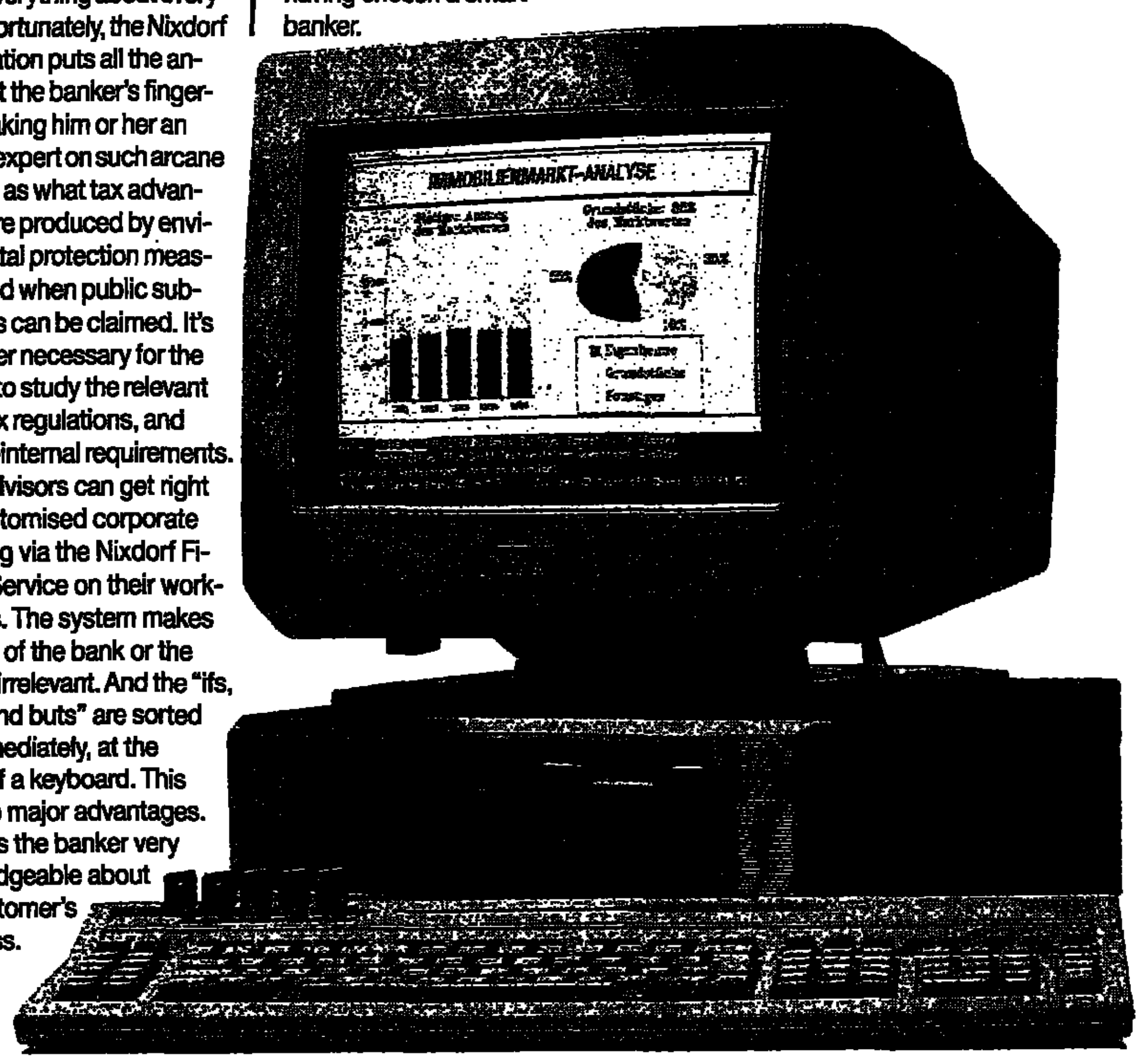
The service innovation that turns a bank into an airport terminal.

Half a square metre with landing rights around the clock. That's what happens when a bank opens a 24-hour Nixdorf Customer Service Centre branch at the airport. The Nixdorf CSC is an incredible convenience for travellers who need to withdraw cash in the correct currency as soon as they land, without waiting in line. The CSC accepts the EC card all over Europe, and credit cards on all continents. And bank customers enthusiastically accept it, as well.

New technology creates new ideas

The service innovation that turns a bank advisor into a trade expert.

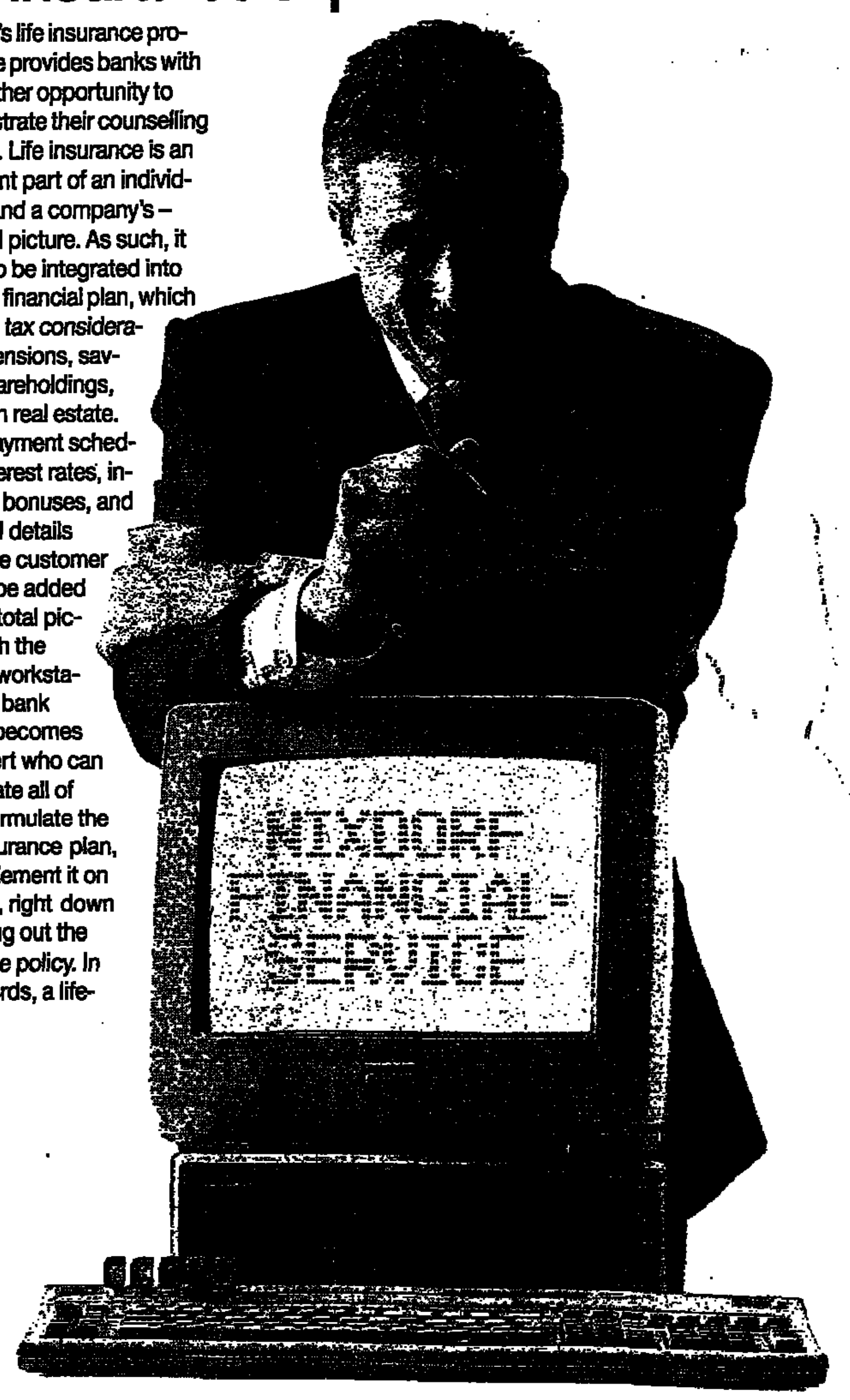
The basic concept is that a banker can't be expected to know everything about everything. Fortunately, the Nixdorf workstation puts all the answers at the banker's fingertips, making him or her an instant expert on such arcane matters as what tax advantages are produced by environmental protection measures, and when public subventions can be claimed. It's no longer necessary for the banker to study the relevant laws, tax regulations, and branch-internal requirements. Bank advisors can get right into customised corporate financing via the Nixdorf Finance Service on their workstations. The system makes the size of the bank or the branch irrelevant. And the "ifs, ands, and buts" are sorted out immediately, at the touch of a keyboard. This has two major advantages. It makes the banker very knowledgeable about the customer's business. And it makes the customer feel very knowledgeable in having chosen a smart banker.



New technology creates new ideas

The Nixdorf idea that turns a bank advisor into a life insurance expert.

Nixdorf's life insurance programme provides banks with yet another opportunity to demonstrate their counselling abilities. Life insurance is an important part of an individual's – and a company's – financial picture. As such, it needs to be integrated into the total financial plan, which involves tax considerations, pensions, savings, shareholdings, and even real estate. Then, payment schedules, interest rates, insurance bonuses, and personal details about the customer have to be added into the total picture. With the Nixdorf workstation, the bank advisor becomes the expert who can coordinate all of these, formulate the right insurance plan, and implement it on the spot, right down to printing out the insurance policy. In other words, a life-saver.



New technology creates new ideas

The service innovation that turns a bank advisor into an investment consultant.

Timing and accurate information are crucial to intelligent investment decisions. Using his workstation to access a highly sophisticated system for share dealings, the banker can analyse such things as expected yields and risk factors. He can compare, contrast, and combine various investment options, he can offer informed advice, analyse share price movements, make buy-sell recommendations or decisions, implement "course corrections", and administer portfolios from his desk. In addition to becoming an extremely valuable resource to the bank's most affluent customers, he becomes something just as important: a profit centre for the bank.

New technology creates new ideas

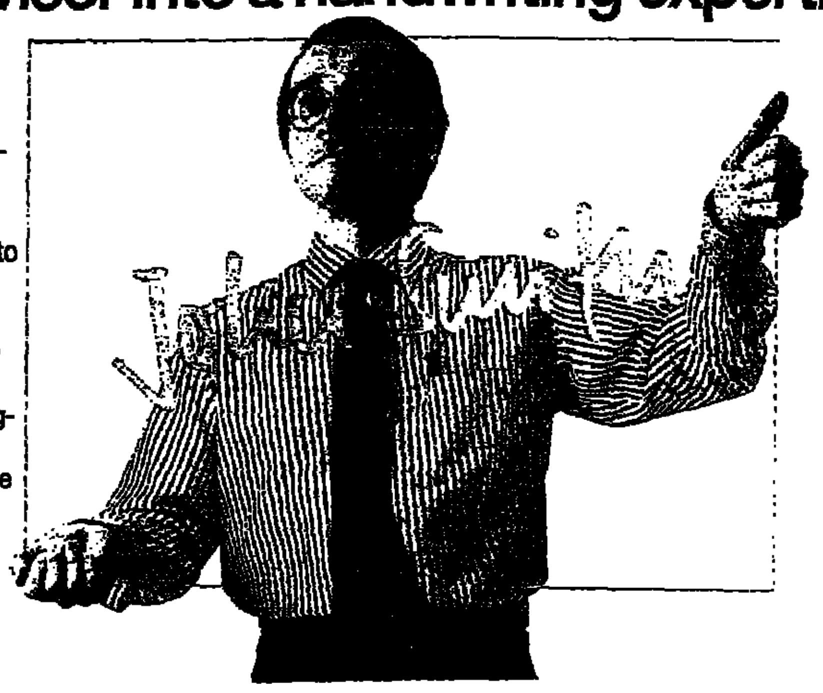
The service innovation that turns a bank into a museum guide.

It's amazing how quickly word gets around among tourists as to the best place to exchange foreign currency. And the bank of choice is the bank that provides valuable tourist information as well: when do the guided tours in the art museum begin? Who was the architect of the famous baroque church? Where does one find the restaurant that serves the most authentic food? How do we find transportation out of town? When was the historic town hall built? How do we sign up for a sight-seeing tour? Where can we purchase tickets? The Nixdorf Customer Service Centre can answer these questions at the touch of a button. It's a fountain of information that can be programmed to answer tourist questions in any language. And when you think about it, nothing stops a bank from programming it to answer questions of interest to regular customers: what's on at the opera? Are there any tickets available for the hit show? What are the start times at the cinema? One thing a bank with a Nixdorf CSC learns very quickly: what's good for customers is good for the bank.

New technology creates new ideas

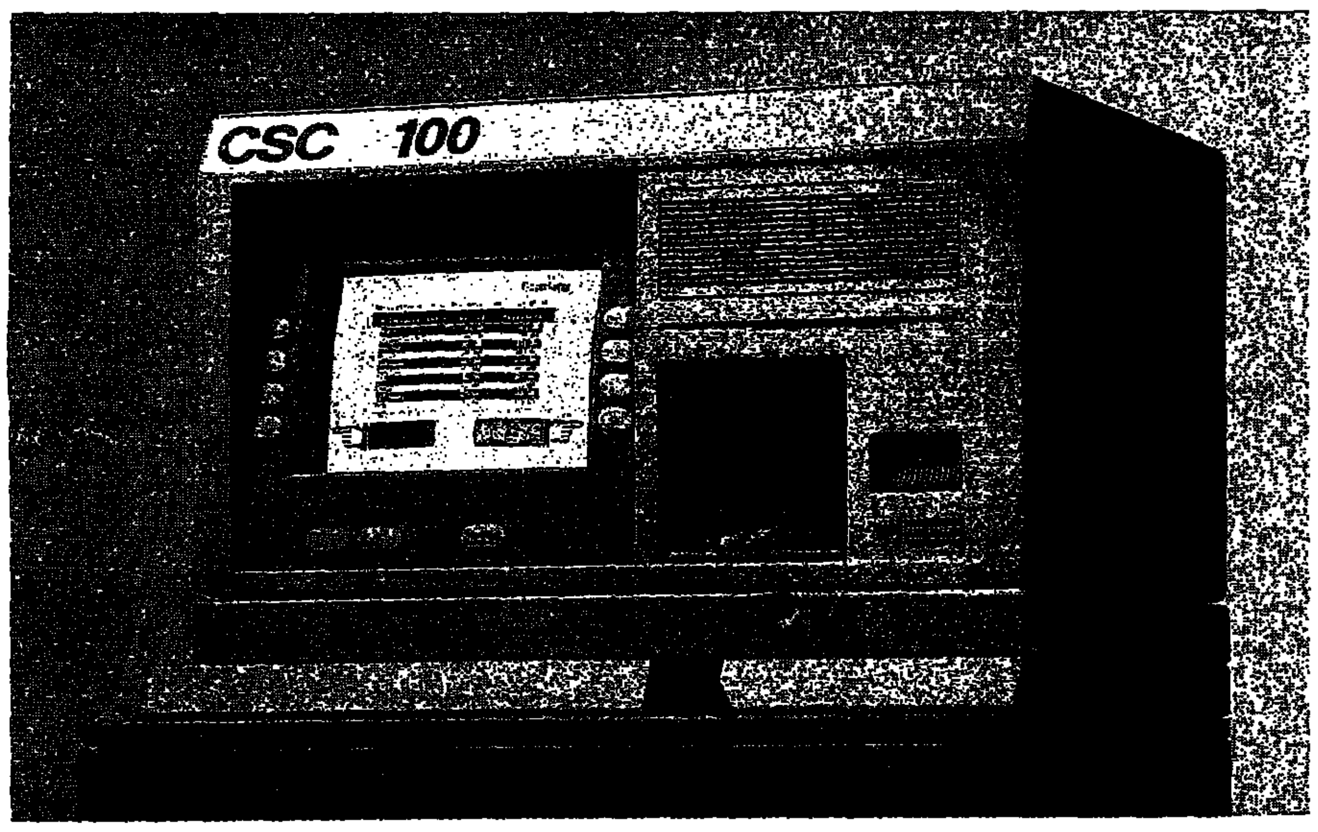
The service innovation that turns a bank advisor into a handwriting expert.

Checking a customer's signature is no longer an onerous task. An unforgeable original is digitised via scanner, and made available at tellers' counters and bank terminals. That puts an end to having to walk over to the customer filing cabinet to check signatures, while the line of waiting customers grows by the minute. The signature appears at the top right of the screen, alongside the current balance. One glance does the job. A big smile is the response.



New technology creates new ideas

The service innovation that turns a bank into a "stock exchange".



Stock markets close. The Nixdorf CSC never does. The consequence of this is that now a bank can handle securities buy-and-sell transactions 24 hours a day. This not only makes the bank's customers happy, it creates more business for the bank. Here's how it works: the CSC displays daily stock quotations and closing prices from the major stock exchanges on its screen. The customer uses the simple keyboard to place buy and sell orders, including time and price limits of new emissions, common shares and options. The CSC responds instantly. The transaction is immediately passed on to the responsible advisor's Nixdorf workstation and processed there. It's a fact that more and more banks and customers are making profits in the stock market, due to the right investment: The Nixdorf Customer Service Centre.

New technology creates new ideas

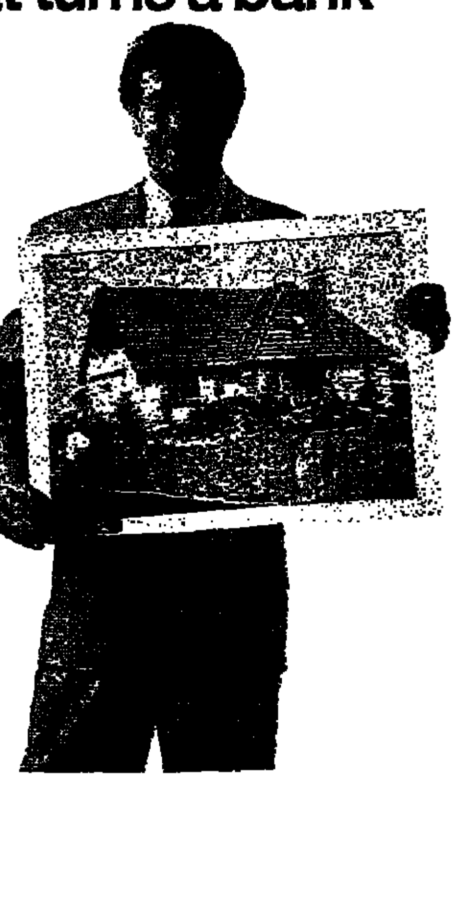
The service innovation: The bank that's open 'round the clock.

Think of a bank that's never closed. Whatever the customer wants to do: withdraw cash, exchange currency, enquire about a bank balance or the latest share prices, buy or sell bonds, place standing orders, make deposits or withdrawals from savings, order cheques and forms – all these are made possible, 24 hours a day, by the Nixdorf CSC. The CSC, which takes up only a half a square metre of space, is child's play to operate. Instructions appear on the monitor, and the customer fills in requests using the keyboard. The CSC saves time, eliminates standing in line, and triples the time a bank can devote to serving its customers. Best of all, the Nixdorf CSC can work in harmony with other manufacturers' computers. Opening up their options as well as their banks.

New technology creates new ideas

The service innovation that turns a bank into a real estate agency.

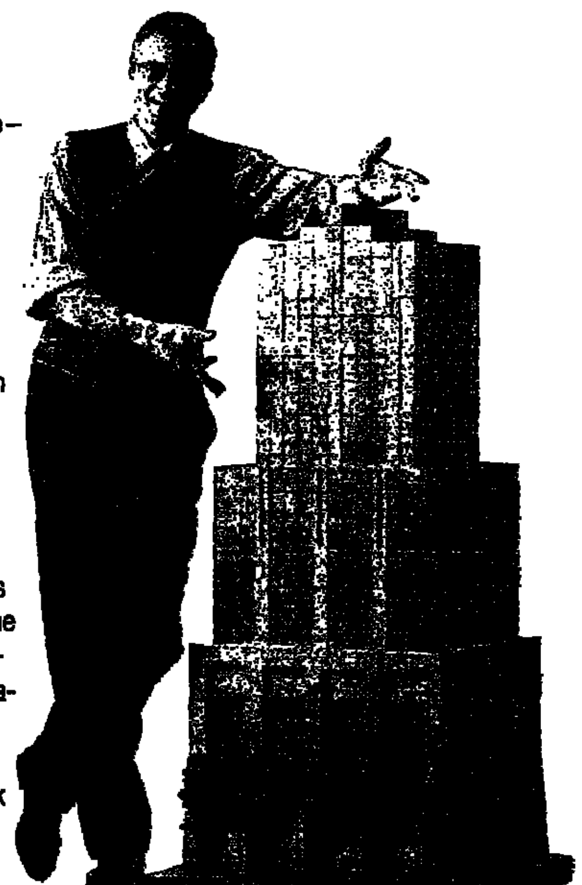
It's a rare customer that needs a mortgage before he finds a piece of property to buy. Which is the best reason for a bank to be in a position to offer the customer the best information on real estate offerings in the area. With the Nixdorf CSC, which occupies only half a square metre of space, the customer can view the building or apartment on the screen, complete with plans, exterior views, prices, and terms. He can comparison shop, by looking at other property in the same way, make a preliminary decision, and then turn to the banker – right there in the bank – to discuss mortgage terms. The bank is there while the customer is in a buying mood, and the chances of making the loan are excellent. You might say that with a Nixdorf CSC, the bank has gotten in on the ground floor of the deal.



New technology creates new ideas

The service innovation that turns a bank advisor into a business consultant.

This idea helps the bank get as close as possible to its customers. The banker arrives at the customers office – but not with a bulging briefcase full of papers. Instead, he brings a Nixdorf laptop computer, containing all the latest customer data and information he needs to transact business. Contracts, ready for signing, can be stored for immediate recall. Data on new transactions, changes in contracts, notices of termination, etc., can be transmitted directly from the laptop to the bank's mainframe computer, and the laptop can access the mainframe for any further information needed to counsel the customer on the spot. The banker looks good, the bank looks good, and the customer feels good. Which is very good for business.



SECTION IV

FINANCIAL TIMES SURVEY

Industrial decine has been reversed. The economy is probably growing faster than elsewhere in Spain. And, in spite of the recent murder in Madrid of a nationalist MP, violence is losing its authority among the Basque people, reports **Peter Bruce**

The Basque Country

Fear beats a retreat

THE BASQUES have stared fear in the face, and won.

The enemy – industrial *decline and separatist violence* and blackmail – is on the retreat. The economy is growing, probably faster than anywhere else in Spain. The people, who now overwhelmingly support parties which specifically reject nationalist violence, *openly* mock *and* challenge the dwindling band of gunmen who claim to represent them.

It has slowly begun to sink in that the Basque Country is indeed a fine place to be; that it is not oppressed by Spain; *that it is in fact one of the* most free non-sovereign regions in the world. The language is being fostered and taught. The Spanish flag is nowhere to be seen. The once-hated Spanish Guardia Civil, through whom General Franco *used to smother Basque* self-pride and nationalism, is slowly being withdrawn and replaced by a Basque police force.

"The change here has been enormous," says Mr Jesus Areizaga, who runs a mutual guarantee *society* in San Sebastian for small businesses trying to raise new funds for investments: "There is hope. Everyone is travelling. People are thinking differently."

Politicians who a few years ago would not have dared to *speak out for fear of* retribution from ETA, the organisation that has waged a terrorist war for Basque independence for more than 20 years, now openly proclaim their right to be heard. Mr Gregorio Ordonez, a remarkable young city councillor in San Sebastian, representing the centralist (Spanish) conservative Partido Popular proclaims that "the streets are ours, the democrats'. The vast majority of Basques want to live in peace."

What has happened?

First, the economic boom that swept through Spain has at last taken root in the Basque Country. The Basques, more than any other part of Spain, suffered terribly after the oil shocks of the early 1970s and 1980s as the heirs of the Spanish *industrial* revolution. Around Bilbao particularly, the ground is thick with old heavy industry – steel, heavy engineering and shipbuilding – that was in no position to confront recession when it came. Trade unionists reckon more than *half* the 40,000 jobs in heavy industry in the region have been lost in just five years.

Now, the companies that have survived – though many did not – are making money again. Further east, towards *San Sebastian in Guipuzcoa* province, there is a tremendous new energy flowing through the myriad small and medium-sized manufacturing industries that hug the almost Alpine slopes and valleys just inland from the Bay of Biscay.

Conscious that they cannot rest on their laurels, the Basques are building training and research centres to hold their unquestionable place as the only people in Spain historically capable of making capital goods with their own resources. *One of the keys to* this recovery (gross domestic product will grow probably more than 5 per cent this year) has been the survival of hundreds of small engineering shops and at Fagor, the big white goods producer, managers say: "We are now *able* to subcontract more and more every day."

Even the unions, famed for their fierce resistance to plant *closures in the mid-1980s*, have caught the mood: "The situation today is very optimistic," says Mr Alberto Perez Garcia, secretary general of the UGT, one of the region's big unions: "There is a better union and business tradition here than anywhere else in Spain."

The unions, in fact, have also played a key role in con*fronting the Basques'* other torment – terrorism in support of independence.

There was a time, in the early 1980s, when ETA, the separatist terrorist movement, was able to influence business decisions through threats or murder. But as the region has worked through its economic turmoil and more and more of ETA's intellectuals have opted for peaceful politics, it has become less important.

Violence, though still prevalent and, sometimes, stupefying, has lost its *political* authority. People are no longer scared. Businessmen still carry insurance policies against kidnapping but simply refuse to pay "revolutionary taxes" to ETA and are no longer afraid to speak out against it.

*"There has been an impor*tant consolidation of democratic political institutions here," says Mr Jose Antonio Zestona, deputy secretary general of the region's biggest union, ELA-STV: "The political fissure that ETA tried to impose (on the economy) *has* been completely rejected. The 18-year-olds now coming on to the jobs market were only three years old when Franco died and today it is much more difficult to use labour problems for political ends."

Another important event was the decision only last year by all the Basque parties (most *of them nationalist to some* degree), excluding Herri Batasuna, which supports ETA, publicly to condemn violence and to offer voters a clear choice between Herri Batasuna and themselves.

Herri Batasuna's vote has *slipped slightly in two elec*tions this year (the European poll in June and the general election in October) probably as a result of its isolation, but it *still* commands a significant 17 per cent following among Basques and cannot be ignored.

Most Spanish and Basque political leaders took as a sign of some desperation, however, Herri Batasuna's decision after the *general elections to take up* the seats it had won in the Spanish Cortes in Madrid for the first time. It was assumed that the separatists had realised they needed to redefine their democratic credentials. Then tragedy struck.

On the night of November 20, the day before the new Parliament was to be constituted, the four Herri Batasuna MPs and three Senators were sitting down to a meal in a Madrid restaurant when two masked men stormed in and shot one MP dead and gravely wounded another. In the immediate, terrifying aftermath, political *leaders spoke of the peace pro*cess in the Basque Country being put back five years. Strikes were called in the Basque Country. Petrol bombs were thrown.

But Herri Batasuna quickly made it clear it would go to *Parliament despite the attack.* As one member of the party's national executive said: "We want to intervene in institutions to facilitate negotiations on auto-determination between Madrid and ETA." The attack on the restaurant has not changed that.

Whether Madrid can be persuaded to "negotiate" with ETA is another question, to which the likely answer is "No". But the game about to be played out is a delicate one. Herri Batasuna hopes that by appearing in democratic institutions it can undermine efforts to isolate it politically. By merely giving the appearance of making an effort, it *will make life difficult for* Madrid.

Most Basques are nationalists, and although there is an overwhelming majority vote for parties that work within the system and with the so-called Spanish State, Herri Batasuna's dream of winning from Madrid the right to auto-determination (the right to *choose to be independent* now or whenever) is nevertheless a seductive one.

In spite of the tension and anger following the Madrid attack on Herri Batasuna – probably perpetrated by pro-Franco fascist sympathisers – *it seems unlikely that the new* calm and confidence in the Basque Country will be derailed. Without any doubt, ETA will kill in revenge. But the problem has become criminal, not political.

Many of ETA's supporters *claim to be fighting Spain*, but had Gen Franco not so viciously suppressed the Basque people during his 36 years in power, none of this would be happening. *He took* away their political rights, banned their language and kicked at the region's soul.

One day historians may stop writing long tracts about why Franco did this or that and, it is hoped, recognise that Spain *came close to losing the* Basque Country because of his treatment of it.

By that measure, Franco was simply a fool.

And if the current mood in the region is any guide, the *Basques have learned to laugh* at him. No-one has any illusions about separatist violence ending quickly and there will probably always be at least someone with a crude nationalist dream and a gun to back it up. But fewer people care.

The Basques have overcome their fear. The hope now is that the foreign and Spanish investors that have given it such a wide berth for so long will overcome their fears as well. There cannot be many places in the world more deserving of a vote of confidence.

CONTENTS

☐ (left) a wall poster of the Spanish Prime Minister with a nationalist sticker over his mouth

Photographs *Ashley Ashwood*
Editorial production *Gabriel Bowman*

KEY FACTS

AREA	7,261 sq km
Alava	3,047 sq km
Guipuzcoa	1,997 sq km
Vizcaya	2,217 sq km
POPULATION	2,195,919
Alava	264,339
Guipuzcoa	712,137
Vizcaya	1,219,393
Vitoria	200,742
San Sebastian	176,586
Bilbao	332,413
Basque Country share of Spain's value added (1985)	10.5%
Machinery & equipment	22.2%
Electrical and electronic engineering	11.9%
Primary metal production	32.4%
Metal products	27.7%
Rubber and plastic	22.3%
Transport equipmt	9.9%
Paper	11.1%
Marine transport cargo handled (000 tonnes)	
Bilbao	23,983
Pasajes	3,366
Algericas-La Linea	23,348
Barcelona	16,874
Tarragona	23,882

Peter Bruce looks at political developments

Condemnation of violence isolates Herri Batasuna

MR JOSE MARIA Sasiein, a member of the national executive of the ultra-nationalist leftist Basque party, Herri Batasuna (HB), sits behind a table in the party's cramped headquarters in Vitoria patiently trying to find ways to explain to a foreigner why his party supports ETA, the terrorist movement fighting a democratic Spanish Government for Basque independence.

It is true, he concedes, that the Basques have probably greater freedoms now than any other region in Spain. "But if a man is in prison," he says, "and you offer him bread, and he eats it, it does not mean he would not prefer fish."

He is very probably correct. The question, though, that continues to consume Basque politics, be they pro-autonomy or for outright independence, is whether the fish is worth killing for.

"We are against all violence," claims Mr Sasiein, "but we will not accept that 36m Spaniards can impose their will on us."

Herri Batasuna regularly accounts for between 14 and 16 per cent of the Basque vote, a proportion too big for either Madrid or the other Basque parties to ignore. In the last general election in October, HB was the biggest party in Guipuzcoa province.

ETA, whose separatist war has claimed more than 600 lives since the early 1960s, has continued its shootings, bombings and extortion despite the advent of a democratic Spain and the handing over of wide autonomous political powers to Victoria. When will it all stop?

It is a measure of the wretchedness of Basque politics that it took until last year for the remaining Basque parties to unite publicly to condemn violence as a means of achieving any political end. But it has proved, say political leaders, to be a hugely significant event.

For the first time Basques know, for sure, that they can choose between a vote for violent politics or peaceful ones. The fact that the agreement blurs the ideological differences between the remaining nationalist parties – from the conservative old Basque Nationalist Party (PNV) to the left-wing Euskadiko Ezkerra (EE) – may one day have surprising consequences, but the political battle now is to isolate ETA and the HB.

Some leaders claim the tactic has worked. HB has lost votes, slightly, in both the European and general elections held this year. Although the fall in votes is minor, HB supporters, say opponents, are much more fanatical than other voters and any decision not to support HB is significant.

"By definition, when Herri Batasuna is not winning, it is losing," says Mr Kepa Aulestia, secretary general of the EE and himself a former member of ETA.

Mr Jose Antonio Ardanza, the Lendakari, or Basque Prime Minister, insists that "young new voters are not going to Herri Batasuna." Like many leaders, he believes that the loss of support is beginning to tell on Herri Batasuna and points to HB's recent decision to take up its four seats won in October in the Madrid parliament as proof.

Jose Maria Sasiein, Herri Batasuna national executive member

THREE RECENT ELECTIONS

	1984		1986		1989*	
PNV	450,953	42.8%	270,993	23.65%	251,219	22.91%
Socialists	243,660	24%	252,454	22.03%	232,807	21.23%
Herri Batasuna	157,163	17.33%	200,422	17.49%	186,184	16.98%
EA†			181,099	15.8%	123,246	11.42%
Euskadiko Ezkerra	85,621	8%	124,722	10.9%	97,253	8.87%

*Regional parliamentary elections in 1984 and 1986, general election in 1989. The 1989 figures distort local votes, as voters behave differently during regional and national polls. †The EA is a breakaway from the PNV. All the above parties are Basque, except the Socialists, which is a national party.

"Sooner or later, Herri Batasuna will have to condemn violence"

"Herri Batasuna is trapped in a vicious circle," Mr Ardanza says. "Francoism fed its nationalist strain but it is all over." Some Herri Batasuna leaders would like to opt for a normal political life, he argues, but fear retribution from ETA if they break ranks.

Mr Sasiein scoffs at this. "We are going to parliament because we want to take advantage of institutions to facilitate negotiations with ETA. None of us have any fear of leaving the party. If people are voting for other parties it is only because they believe we have no voice (in Madrid)," he says.

Nevertheless, there is general satisfaction in the Basque Country at HB's decision to go to Madrid even though most "pacifist" parties believe that, after years of disintergration to the left or right, what remains of ETA now is a hard core of unshakeable separatists prepared to continue murdering no matter what Madrid has to offer short of independence.

The hope is that a threat to its political survival as a party will force the HB to distance itself from ETA. "You cannot exist in the Cortes (the Spanish parliament) without condemning violence," says Mr Aulestia. "Going to Madrid is an irreversible step (for HB). Sooner or later, it is going to have to condemn violence."

Mr Aulestia's point is that the gap between violent and peaceful politics is no longer reducable by political negotiation and that the normalisation of Basque politics is only conceivable as a political process.

Herri Batasuna, however, insists that ETA and Madrid can and should negotiate a peace. "ETA has shown a clear will to negotiate on all themes," says Mr Sasiein, and "every negotiation has give and take."

But the reality is more complicated than that. Both ETA and HB make demands on which they claim they will not budge. One is that the province of Navarre be incorporated into the Basque Country as its rightful fourth Spanish province. In theory, at least, ETA also claims the three French Basque provinces.

The other, more difficult, demand is that the Basques be given the right to auto-determination. "What we are looking for now is the right. We would not exercise it for a long time," says Mr Sasiein. The separatists dream of one day holding a referendum on full independence and it was the "failure" of post-Franco Spain not to cede them that right that has, in HB's view, made the continuation of terrorist violence "understandable."

ETA and HB would no doubt be prepared to negotiate the time frame in which a hypothetical right to autodetermination would be exercised but, despite Mr Sasiein's apparent assertion to the contrary – that everything is negotiable – talking away the right itself would amount to a total capitulation by the separatists.

There *were* discussions between ETA leaders and senior Spanish officials in Algeria this year but they broke down. The two sides came nowhere close to agreeing on what it was they were doing. ETA claimed to be negotiating, Madrid said it was simply discussing ways to end violence.

The distance has not shrunk since. ETA killings have continued and Herri Batasuna claims to be completely unfazed by the slight fall in its vote. "We are not worried at all," says Mr Sasiein. "We have consolidated our vote and we now have to dynamise our political programme in order to attain a political negotiation."

Herri Batasuna's appearance in Parliament in Madrid, superficially at least a move in the "democratic" direction, may in fact cut the ground from under the other parties which have sought to isolate it as undemocratic. It will, no doubt, make itself highly visible in the Spanish capital.

The assassination of a Herri Batasuna MP in Madrid two weeks ago will also make it harder to marginalise the separatists politically. That killing puts even greater pressure on the PNV's Mr Ardanza, who governs in Vitoria in coalition with the Basque branch of the Socialist Party led by Mr Felipe Gonzalez, the Spanish Prime Minister.

Mr Ardanza and the pacifist Basque parties, be they nationalist or like the Socialists, centralist, need to make urgent progress on fulfilling the conditions of the Basque Autonomy Statute – the handing over of full police powers being a contentious point – in order to satisfy the nationalist heart that beats in almost every Basque chest. And they must keep one step ahead of HB sweet-sounding siren calls for a totally free homeland.

CONFLICT WITH SPAIN

Why ETA is still fighting

ETA, acronym for Euskadi Ta Askatasuna (Basque Homeland and Liberty), reached the ripe age of 30 this year. Mr Jose Luis Alvarez Enparantza, one of the terrorist group's founders and its most influential ideologue in the early 1960s, celebrated his 60th birthday with his election last month as senator for San Sebastian's Guipuzcoa province, representing ETA's political support group Herri Batasuna, which means Popular Unity in Basque.

Mr Alvarez Enparantza is still known by his *nom de guerre* of Txillardegui which he used during the clandestine years when he lived mostly in Belgium and south-west France. Though nowadays he is a respectable member of the University of the Basque Country, where is a professor of philology, he played a key role in the early years of ETA's three-decade-long history.

Mr Alvarez Enparantza was responsible for keeping ETA on the straight and narrow path of traditional extreme Basque nationalism. He fought off what he termed "deviationist tendencies" that he considered "communistic and hispanified" and which he claimed sought to take the separatists along routes signposted by diverse "isms", Marxist-Leninism, Trotskyism, Maoism, Castroism and the rest. The nationalist component in ETA remains central to understanding its longevity and explains why it has not faded away like West Germany's Baader-Meinhof group and Italy's Red Brigades.

The deviations that Mr Alvarez Enparantza opposed came to a head in 1966 when 37 ETA members held a key meeting to discuss objectives and strategy in the parish priest's house of the village of Gueltzu, Guipuzcoa. At issue was whether ETA should stick to its narrow nationalist base or whether it should open itself to the ideologically left-wing influences of the Algerian, Cuban and Vietnam revolutions.

The meeting gave birth to ETA's Fifth Assembly, for it was the fifth brainstorm of its kind since the organisation was launched on August 31 1959, the feast day of that energetic Basque saint, Ignatius of Loyola. Held in two stages, December 1966 and March 1967, the endless debates led to two broad policy decisions that remain highly relevant. The left-wing ideologists lost the argument – ETA would be Basque first and foremost and it would begin an armed struggle.

The triumph of the nationalists led to a subsequent major split within the organisation. In 1970 the internationalists formed what was known as ETA's Sixth Assembly to distinguish themselves from their rivals and proclaim that they owed at least as much to Leon Trotsky as they did to the founding fathers of Basque nationalism.

The Sixth Assembly, which called itself ETA's political-military wing in the mid-1970s, renounced the armed struggle in 1981 and helped to create the political party Euskadiko Ezkerra (Basque Left). Some 180 *Poli-Milis* as they were known, were released from prison or allowed to return from exile while a rump, which opposed the decision to cease fighting, joined the original Fifth Assembly or, as it was by this time known, ETA Militar, the military wing.

Mr Alvarez Enparantza did not attend the 1966-67 meetings but he cast a long shadow over them with a series of policy papers that tipped the balance in favour of the nationalists. "The first specific task of the state of Euskadi," ran one of his typical motions, "will be to make the nation entirely Basque-speaking."

Mr Jose Manuel Pagoaga, known as "Peixoto," who was present at the Gaztelu vicarage meetings and was until his recent arrest in France one of ETA's most authoritative spokesmen, illustrates the supremacy of the nationalist line.

Born and bred in those isolated and self-sufficient Basque farms that are called *caserios*, Mr Pagoaga was given Franz Fanon's "Wretched of the Earth" to read when he joined ETA in 1962 by a leftist member of the group. He recalled later that he was not especially impressed and did not believe that ETA needed to be motivated by the Algerian revolution theorist: "We were Euskaldunes (Basque speakers) and that was enough."

Urban guerrilla warfare, the second broad policy decision taken during the Gaztelu debates, had an undeniable impact and it remains, together with fanatic nationalism, ETA's most salient characteristic today.

The decision to embrace the armed struggle was an undoubted point of consensus between usually university-educated left-wingers and those who preferred the green of their native valleys and the rural folklore to internationalist red flags and left-wing tracts.

Up to that Fifth Assembly ETA had been little more than an *agit-prop* group, propagating a return to Basque values and the study of the Basque language, that circulated pamphlets, daubed slogans on public buildings and blew up the occasional television repeater station. ETA now embarked on a course that inexorably led, by way of selective killings, to its present-day use of car bombs.

The decision to go to war pitched ETA into a spiral of violence that made action, and the need for sustained action, its prime reason for existing. The out-and-out nationalists whom Mr Alvarez Enparantza appealed to understood readily enough that the end justified the means. "To make a nation you need a lot of time and a lot of blood," Mr Pagoaga was later to say.

The ETA of today is the child of that hard core in the mid-1960s that began to fight the nationalist battle with a primitive ideology.

Had ETA lacked this deeply nationalist component in its most radical *caserio* variety, the organisation, in its Fifth Assembly and in its military versions, would have eventually sued for peace as did the internationalists.

The latter, the Sixth Assembly with its Trostkyist overtones and its subsequent political-military wing, were far more politically sophisticated. Mr Mario Onaindia, who attended the December 1966 meeting, later masterminded the *Poli-Mili* ceasefire and eventually became Euskadiko Ezkerra's first secretary general, has outright contempt now for the hardliners: "the Basque Country needs psychiatrists rather than policemen."

The root problem now, as people such as Mr Onaindia see it, is that the call for waging war blindly on Spain struck an historic chord among the ultra-nationalist core of the original Fifth Assembly and that it continues to do so among present day *etarras*. Outright confrontation with Spaniards claims a very long ancestry and explains ETA's 30-year survival.

ETA is umbilically linked to the marauding Carlist armies who in the 1830s and in the 1870s fought in defence of the Basque Country's traditional political liberties against the Madrid-based liberals in what were known as the Carlist wars. For 150 years a sector of the Basque population has viewed Madrid down the barrel of a gun.

It was the final defeat of Carlism, and the abrupt end to the Basque Country's remaining special privileges, that gave rise to Basque nationalism as a political force at the end of last century. Sabino Arana, the founder of the Partido Nacionalista Vasco, drew a picture of a pastoral Basque Utopia that was threatened by industrialism, by Spanish immigrants, by liberalism and by materialism.

Arana extolled the nobility of the Basque race and urged that Spaniards should not be taught Euskera, the Basque language, for fear that the Basque soul be further contaminated. "The Spaniard," he wrote in 1895, "washes himself once in his lifetime and changes his clothes once a year."

Mr Alvarez Enparantza's strictures in the mid-1960s took up Arana's theme. "Spanish is an imperialist language imported by the colonialist oppressor and it must be exterminated by the most efficient means possible," Mr Alvarez Enparantza wrote to the Fifth Assembly meeting.

Twenty years ago were propitious times for such blanket resolutions, more so, in fact, than when Arana and his fanatical peers first formulated them. The ideological cornerstone of Sabino Arana's myth-strewn nationalism was that Euskadi, the Basque Country, was an occupied nation. In the eyes of the Fifth Assembly delegates, General Franco's dictatorship had by the 1960s turned that occupation theory into a self-evident truth.

When ETA opted for violence, its hard, Basque-speaking core was not opposing Francoism because it was a dictatorship but because it was an offensive foreign presence in the Basque Country; like the Carlists they descended from, the *etarras* were fighting Madrid and all it stood for.

Although Francoism is now dead and buried, ETA remains fighting because Madrid, the unclean Spaniard, is still the eternal enemy. While a sector of Basque society remains fossilised in its primitive rebel ancestry, ETA will never be short of recruits and nor will Herri Batasuna and Mr Alvarez Enparantza lack tens of thousands of voters.

Tom Burns

Ardanza: helped to secure the re-election of Felipe Gonzalez

Profile: THE PRIME MINISTER

A difficult job

JOSE ANTONIO Ardanza Garro, the Lendakari, or Prime Minister of the Basque Country, nearly became a priest. When he was 13 he entered a seminary and left six years later after deciding he had lost his faith.

That was in the 1950s, a time when Franco's oppression of Basque traditions and language was probably more painful than ever. Mr Ardanza, like practically all Basques, became a fervent nationalist and joined the old nationalist party, the PNV, in 1961 when he was 20. Although he would have brushed shoulders with many of the young men who soon formed ETA to take up arms to fight for Basque independence, he turned away from them when they began to shoot people.

Mr Ardanza was still relatively unknown, even in the Basque Country, when, in January 1985, the Basque parliament elected him Lendakari. A split in the PNV had seen his predecessor leave to form a new party and he was quickly forced to design a pact with the Basque branch of the Spanish Socialist Party to keep his Government in power.

Since the last regional elections in 1986, the PNV and the Socialists have governed in coalition, the centralist party having enough sense to keep the nationalist leader in place despite having won two more seats than the PNV.

The PNV, despite its nationalist credentials, is a conservative party and Mr Ardanza is no exception. But people who once expected him to be little more than a puppet of the PNV's powerful president, Mr Javier Arzallus, happily admit now that they were wrong.

He has grown in the job, but it remains a difficult one. On one hand, political survival in Basque politics of almost any colour demands a commitment to nationalism – autonomy, not necessarily independence – but he has had to learn how to do this without alienating his socialist partners who, even if they are Basque, nevertheless answer to Madrid.

The challenge is persuading Madrid to meet the promises made in the Basque Statute of Autonomy, a remarkable document that gives the region, in theory, probably more political freedom than any other non-sovereign entity in the world.

But, says Mr Ardanza, Madrid has been awfully slow in meeting its commitments. "It gets a bit boring," he says, constantly battling with Madrid to cede the Basques greater police powers or greater control over social welfare and education.

However, like most political leaders in the region, he is convinced that the war against the country's most debilitating enemy, ETA terrorism, is being won.

"The phenomenon of violence has its days numbered," he says. "We are seeing now many of the antibodies at work cleaning the Basque Country of terrorism." Renewed economic growth and vibrant local democratic institutions have turned the Basque Country's mood against ETA's violent Marxist and nationalist creed. "ETA's revolutionary references are the same as they were 20 years ago. What revolution is a young man going to get into here today?" he asks. "We are living in another reality."

A slight, animated man, he rapidly ticks off the region's advantages: an old industrial tradition, the biggest port (Bilbao) and the best (true) road network in Spain, an agreement with Madrid to spend another Pta 350bn on infrastructure and the ability, because the Basques collect and keep their own taxes, to work quickly and smoothly with foreign investors.

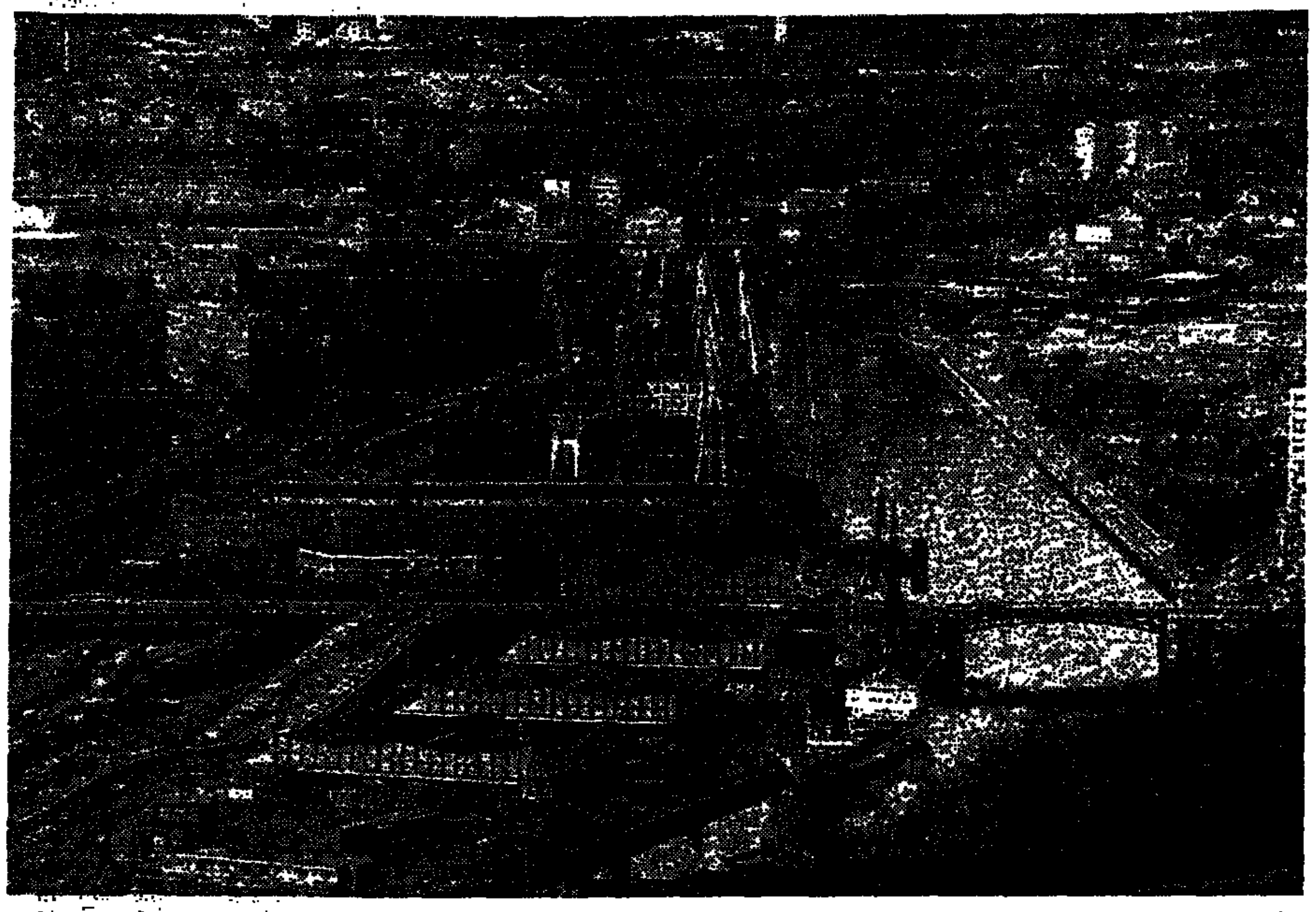
As long as he can keep the good news coming, Mr Ardanza's confidence about the end of ETA's violence is well-founded. He is less than enthusiastic, though, about French co-operation in helping round up and extradite ETA members in hiding in France. "French help always has its price," he remarks with a shrug, and will say no more.

Mr Ardanza's next few years in the job could, however, become a little easier. When Mr Felipe Gonzalez lost his overall majority in the Spanish Parliament in the October 29 elections (the vital one seat in question is now the subject of a legal battle) his Socialist Party turned to the PNV for help in ensuring his first ballot re-election as the country's Prime Minister. No doubt, that support will have its price as well and Mr Ardanza will probably be the man to collect it.

Peter Bruce

Peter Bruce looks at the revival of the region's economy

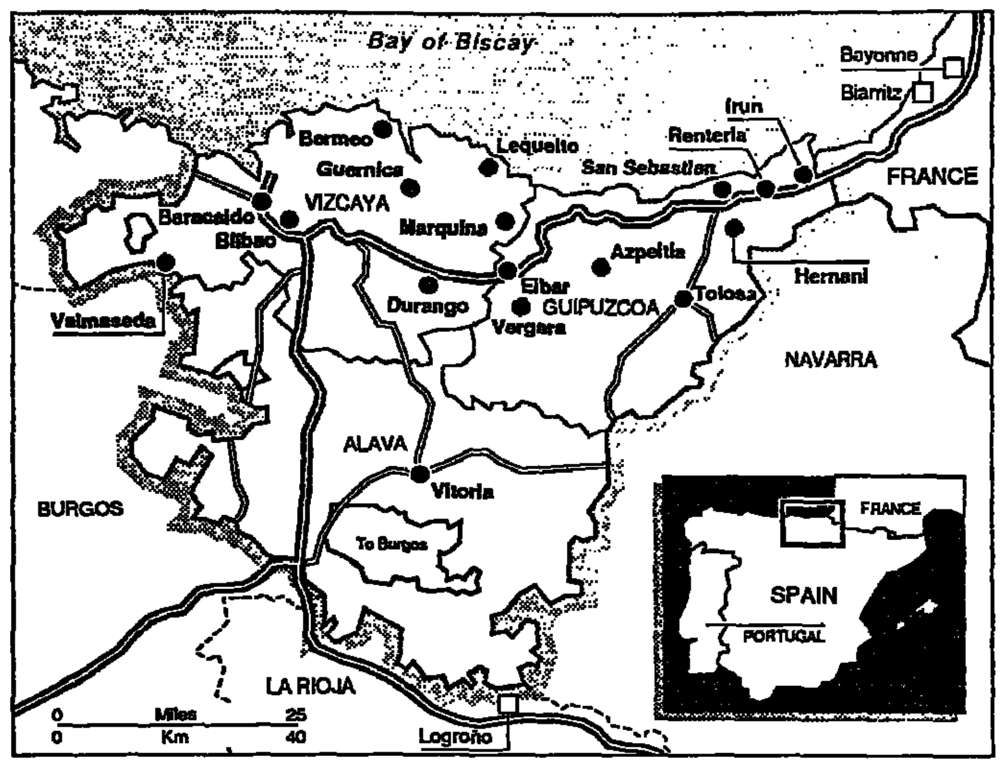
Return of the foreign investor



"We are getting money from Spain now," says Mr Alfonso Basagoiti (above), the Basque Finance Minister.

Nevertheless, there is a Basque suspicion that it is not being faithfully represented by the Madrid Government in Brussels.

And there are plans (though not yet the money) to double the size of the harbour at Bilbao (left).



WHEN THE Basque economy twitches, one of the first people to hear about it is usually Mr Jesus Alberdi, managing director of Elkargi, a mutual guarantee society in San Sebastian.

Elkargi specialises in offering big commercial banks the usually impossible guarantees they require before lending money to small companies.

"We take the risks," he says, "not the banks." This year Elkargi is making new guarantees worth Pta 7bn (£40m), more than double the 1988 total. Something is happening.

Much later than their Spanish cousins, the Basques are beginning to invest again. Gross domestic product, which was growing at only 2.3 per cent when Spain joined the European Community in 1986, is expected to rise 5 per cent this year by conservative estimates and probably even more in reality.

Unemployment, though still among the highest in Spain, has fallen to around 19 per cent from 22 per cent last year. The Basque Government's income, some Pta 583bn, is almost double what is was in 1985 as the region's industrialists begin to make money again.

The strength of the Basque economy lies in the political powers given to the Government by Madrid under the Basque Statute of Autonomy

Probably for the first time since the death of General Franco in 1975 and the return of democracy to Spain, the Basques are beginning to flex their own economic muscle. Separatist violence has died down and a painful industrial reconversion has been survived.

According to central government statistics, foreign investors are beginning to return to the Basque Country as well. Overall foreign investment in Basque companies between January and May this year totalled Pta 26.2bn, dramatically up from just Pta 2.2bn last year.

Two important British investments, one by British Steel and another by Rolls-Royce, which has joined a Basque led-consortium to manufacture jet engines outside Bilbao for the new European Fighter Aircraft, have set local hearts pounding for more.

Even the unions have caught the new mood. "We are well aware of the importance of foreign investors here," says Mr Jose Antonio Zestona, deputy leader of the biggest union in the region, ELA. Just a few years ago, as the big industries around Bilbao were shedding jobs daily, the unions – including ELA – were leading fierce resistance on the streets.

The Basque Government, with Madrid's help, is setting in motion a Pta 350bn programme to improve infrastructure, much of which is already superior to what is available in the rest of Spain, and there are plans (though not yet money) to double the size of the harbour at Bilbao.

Ships currently have to struggle upriver for hours sometimes, making the harbour expensive. Bilbao has lost some business to the other smaller port at Pasajes near San Sebastian but the new project will concentrate on the river mouth and decongest, if not render useless, the old harbour.

The real strength of the Basque economy lies in the political powers given to the Government by Madrid under the Basque Statute of Autonomy. Basically, the statute allows the Basques to collect their own taxes which, obviously, they can then spend anyway they choose. The pact also allows the Basques to make incentives available to investors without having first to consult Madrid.

In essence, the tax pact between Madrid and Vitoria means that the Basques remit to Madrid an agreed proportion (currently 6.24 per cent) of the costs of services provided to them by the central state, such as defence, foreign affairs and the Royal household. There is also an extremely complex set of rules governing the point of taxation and VAT.

But, according to Mr Alfonso Basagoiti, the Basque Finance Consejero (Minister), "the system is more democratic because it forces us (Madrid and the Basques) to come to agreement. We have the kind of fiscal harmonisation now, without frontiers, that the European Community is looking for."

In all this year, the Basques will remit about Pta 85bn to Madrid. Tax collection, says Mr Basagoiti, is up 12 per cent this year – double the rate of inflation – and the Basque Government's budget has risen to Pta 450bn, 10 times what it began with in 1979.

In addition, the Basques have rattled Madrid by offering Basque treasury notes at 7 per cent, 1.5 points higher than central government notes, in an effort to draw "black" (untaxed) money back into the system.

Madrid started this row when it offered not to ask any questions about the money used to buy the notes. The Basques, worried that local capital would leave the region in order to "legalise" itself in Madrid, simply came up with a better offer. "We are getting money from Spain now," says Mr Basagoiti, with a hint of a smile.

The treasury note row will burn itself out soon. Spanish tax dodgers still have more lucrative and safe ways of burying their funds.

The next point of conflict may be Brussels and the Basque suspicion that it is not being faithfully represented there by Madrid.

"We don't think the Central Government defends our interests in Brussels," says Mr Basagoiti. For one thing, Spanish entry into the EC has not necessarily meant more Eurofunds for the Basque region. "We pay 6.24 per cent of Spain's EC membership and we get about the same back," he says.

Basque treasury notes at 7 per cent have rattled Madrid

If the Basque economy continues to grow, local leaders (on whom Spain's Prime Minister now depends for maintaining an overall majority in parliament in Madrid) may decide that that is not enough.

Employed population by sector, 1986 (%)

	Agriculture	Industry	Services
Spain	16.1	24.3	51.9
Basque Country	4.9	37.2	51.8
Alava	9.6	41.9	42.6
Guipuzcoa	4.1	43.0	47.3
Vizcaya	4.3	32.4	57.0

UNEMPLOYMENT*

1986	1987	1988	1989
187,300	194,000	194,400	169,900

*Figures measured in July each year. Source: Basque Government

WORKING POPULATION*

1986	1987	1988	1989
674,500	694,000	694,500	710,900

*Figures measured in July each year. Source: Basque Government

GDP*

1985	1986	1987†	1988†	1989†
2.6%	2.3%	3.5%	4.5%	5%

*Gross domestic product †Estimate. Source: Basque Government

A look at the region's financial institutions

Why bank beats Bolsa

THE BASQUE Country, with its entrepreneurial culture and its myriad of small and medium businesses requiring funds as they jostle for a place in the market, should be the ideal *stamping ground* for a local stock market. It is a comment on how finance is viewed locally that Bilbao's Bolsa is as charming a building as it is dormant as a trading floor.

"The problem is that when a business needs cash, it goes to a bank," sighs Mr Jon de Azua, *managing* director of the Basque Stock Exchange.

It is not surprising that the main clearing banks, and also the savings banks, should provide such a powerful magnet. In the Banco Bilbao Vizcaya (BBV), the Basque

Computer trading has siphoned market activity to Madrid

community has the premier *Spanish bank on its doorstep* and in the local *cajas* which are undergoing a merger process, the Basque Country has, in common with other areas in Spain, a wealthy savings bank network that is *deeply identified* with local financial needs.

BBV, the result of the merger of Banco de Bilbao and Banco de Vizcaya, is on the surface anxious to be seen as a nationwide bank with *international ambitions*, but its roots remain solidly in the Basque Country. It has interests there in more than 30 locally-based corporations. Basques, living locally, represent 18.5 per cent of the bank's total shareholders and own 34.7 per cent of BBV's share value; Basques hold virtually all the senior positions in the bank.

The retail banking giant everywhere in Spain, BBV is particularly thick on the ground in the Basque Country where it has 3,400 employees and 238 branches (or one for every 8,400 inhabitants in the community). The BBV group, moreover, has Basque Country branches of its Banco de Comercio subsidiary which has a middle-upper bracket client base and has recently opened in Bilbao a branch of its private bank, Banco de Privanza.

After the Bilbao-Vizcaya merger took place last year, senior executives of the two banks were agreeably surprised to discover that client duplication was minimal. Customers tended to have an account in either Banco de Bilbao or in Banco de Vizcaya and had secondary *accounts in* third banks or in the savings banks.

When Mr Pedro Luis Uriarte, BBV's chief executive in the Basque Country, says that the bank has "a good knowledge of what the Basque Country needs," *he is* stating the obvious. BBV's board, he says, has "a feeling for the Basque Country and is sensitive to its needs." He claims that the BBV is "a factor in the financial stability of the *Basque* Community."

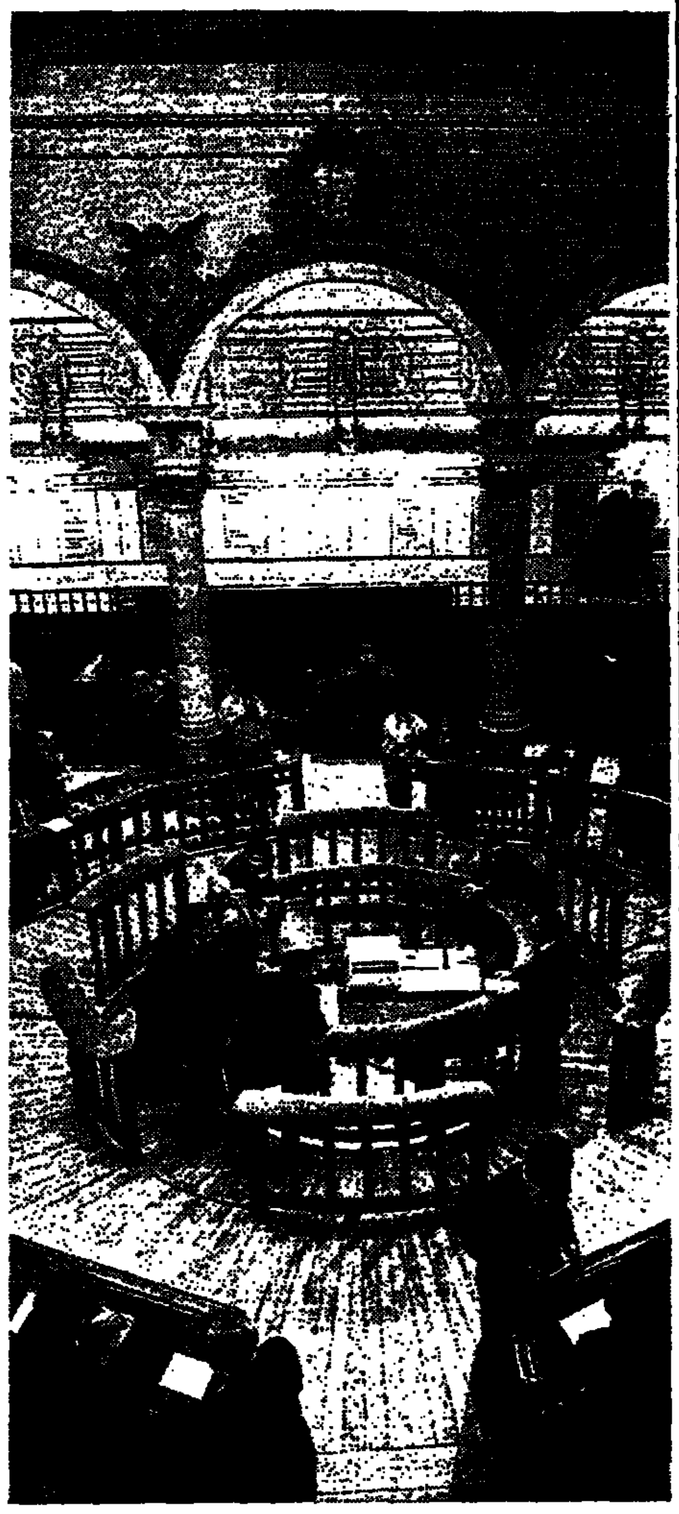
The problem is that, with the BBV acting as a favoured investment and credit channel, what is there left for the Bilbao Bolsa to do? The issue is all the more urgent as the *introduction of computer* trading at the Madrid Bolsa siphons market activity towards the Spanish capital.

Mr de Azua, at the Stock Exchange, lays great store by the secondary market. He *admits that* at the *present* moment it is paralysed but argues that it has "great potential."

What is required is "a change of culture" meaning, according to Mr de Azua, a process by which the public begins to understand the advantages of coming to the floor of the stock market. At the same time, there should be a change in punitive taxes on capital gains and the introduction of fiscal benefits for companies seeking a quotation.

Until such time as investors and legislators change their ways, the Bilbao Bolsa will soldier on, dealings with Basque government debt and Euskobono bond issues which pay at a handsome 11 per cent. Fortunately, the local stock exchange has the full support of the Basque Government; the small period building that houses the Bolsa is viewed as an integral part of the Basque Country's financial hopes.

Tom Burns



The Bolsa de Bilbao: as charming a building as it is dormant as a trading floor

INDUSTRY

Plants come alive again

THE BASQUES are almost comically industrious. Tucked in the lush green hills behind San Sebastian, literally hundreds of small villages, teeming with machine tool factories, paper mills or textile plants, give the place an atmosphere more reminiscent of southern Germany than anything Spanish.

Further west, around Bilbao, sits the heavy end — Altos Hornos' huge steel plant, the sprawling Firestone works, Babcock & Wilcox's drab heavy engineering factories.

There is nothing like the Basque Country anywhere else in Spain. Not even Catalonia, which has managed to attract most new industrial investment in Spain in the past 10 years, manages to convey even a fraction of the Basque industrial obsession.

And these people have all had it hard. The disappearance of the protectionist barriers that Franco erected around Spanish industry, combined with the recessions of the early 1970s and 1980s and a surge of post-Francoist separatist violence to drive many businesses and industrialists to the very brink of ruin and despair.

But practically everywhere now, there is new optimism. Manufacturers are making money again, strikes have slowed dramatically, violence

In machine tools, they are one of the world's top producers

is on the wane. Most important, the Basques have realised that the bad years have not sapped their skills. "People here know how to work with machines," says Mr Jose Antonio Ardanza, the Basque Lendakari, or Premier.

Mr Jose Maria Vizcaino, president of Confebask, the region's biggest employer's organisation, agrees. "The violence took away enthusiasm," he says, "but businessmen have begun to feel comfortable again." Most importantly in Basque industry is that its myriad small and medium-sized companies are not controlled by the dead hands of Spanish bankers back in Madrid, as has happened in so many parts of Spain. "Here we talk an industrial language," he says.

The Basques, on their own, are one of the world's top 12 producers of machine tools, with products ranging from simple lathes made in small machine shops to huge machining centres and flexible manufacturing centres produced by big companies like Danobat. Total Spanish machine-tool shipments more than trebled from Pta 27.7bn in 1983 to Pta 81bn last year, with Basque producers accounting for nearly 80 per cent of the volume.

Fagor, part of the huge Mondragon industrial co-operative in the Basque country, has also become a major player in the world market for computer numerical controls, the high-precision devices that control modern machine tools. Mr Javier Mongelos, Fagor's general manager, reckons the company controls about 8 per cent of the world market for CNC controls and says the company is about to invade the almost impossible Japanese market as well.

Best known as a producer of white goods, Fagor has about a third of the fast-growing Spanish market for washing machines and dishwashers. It has also sold dishwashers to Hoover in the UK. Similarly, many machine-tool producers sell mainly simple machines to West German clients who market them under German brand names.

That practice, if anything, has been a Basque (and Spanish) weakness. "We have always thought that making things was enough," says Mr Vizcaino. At XEY, a producer of kitchen furniture near San Sebastian, that is changing. Mr Victoriano Susperregui, a XEY vice-president, concedes that Basque industry now has to *concentrate on marketing. His* company has all but abandoned its old middle-range furniture to concentrate on the most demanding market of all — West Germany — with high quality goods.

XEY, *which already does* 30 per cent of its business abroad is busy hiring people with language skills and has just been floated on the Madrid stock exchange. "We are much better now, though there are still a *lot of things to do*," says Mr Susperregui. In the early 1980s, he remembers, "we were in a very delicate situation. We had to think about leaving the Basque country."

"But there has been an incredible change among Basques. They have rejected violence."

That, more than anything, has been the key to the Basque's ability to take advantage of Western Europe's economic recovery. Not far away from the XEY plant Europe's second biggest producer of denim, Algodonera de San Antonio, part of the Tavex group, business is booming too.

Mr Javier Echebarria, the company's *finance director*, says an agreement with the once fierce Basque unions now keeps the company's plant at work seven days a week. Probably the most obvious expression of confidence in its place in *the Basque Country is that* fact that Algodonera's management bought out the company from its ageing family owners last year before floating it, too, in Madrid.

But where the going has been rough for the *smaller* business in the province of Guipuzcoa, around San Sebastian, it has been positively horrible for the managers and workers in Vizcaya, around Bilbao, where industry has traditionally been heavier and less flexible.

Something like 20,000 of the jobs in heavy industry have been lost in Vizcaya in the last eight years. The big Euskalduna shipyard almost in the centre of Bilbao has been closed and such companies as Altos Hornos de Vizcaya, the steelmaker, and Babcock & Wilcox have shed thousands of jobs to remain marginally competitive.

B&W had to be rescued by the Government in 1983 and at the height of the industrial crisis six years ago was reporting losses of Pta 15bn. This year it expects to make profits of more than Pta 1bn. The company has its eyes on a new national energy plan which is being drawn up by the Government for the 1990s, in which it would doubtless play a major role as a supplier of capital equipment to new power stations.

But heavy industry will continue to be a precarious business in the Basque Country. It is more than likely that some of the larger companies will be looking for foreign partners, if not owners, in the next five years in order to help out a purely Spanish market and, it is hoped, into new technologies.

This is already happening in the heavy electrical goods sector where Spain's biggest producer, the Basque-based Cenemesa group, is being touted to potential foreign buyers. Asea Brown-Boveri, the Swiss-Swedish group, is trying to buy it but has *run* into problems with union negotiators who want the new owner to honour existing pension agreements. ABB may walk away, but there will doubtless be other takers as the Basque and Madrid governments have offered to forgive debt and tax payments.

The Cenemesa problem should not, however, *disguise* the dramatic improvement in labour relations in the region. *In large part*, this is because the Basque Country, unlike the rest of Spain, boasts its own, dominant, union, the conservative nationalist ELA-STV. In the last elections (in 1986) *of* union representatives to company workers' councils, ELA won almost as many votes as the two big national unions, the socialist UGT and the communist CCOO, combined.

In Spain, the UGT and the CCOO are at war with the *Madrid Government* to try to restore the three-way negotiating process — unions, employers and Government — abandoned last year. In the Basque country, ELA has managed to keep the Government out of annual pay talks, the result being that *there is less political* posing and time wasting.

Unionisation in the Basque Country *is much* higher than the national average and the unions, both ELA and the UGT, have played a vital role in legitimising the region's institutions in the face of terrorist attacks and threats from ETA. "The situation today is very optimistic," says Mr Alberto Perez Garcia, secretary general of the UGT in the Basque Country.

"It is much more difficult today to use *labour* problems for political ends," says Mr Jose Antonio Zestona, deputy secretary general of ELA. "The political rupture that ETA tried to impose on the Basque Country has been completely rejected."

Peter Bruce

The Altos Hornos de Vizcaya steel plant at Baracaldo

STEEL

AHV looks better

ALTOS HORNOS de Vizcaya (AHV) is the Basque industrial story writ large. Spain's largest private sector steel maker, and *the only integrated private* producer in the country, it has been part of industrial Spain since the industrial revolution first began — in the Basque iron ore mines — a century ago.

By the late 1960s, when Spain was booming, the huge AHV *complex* outside Bilbao boomed along with it. Its markets were protected and its ambitions were limitless.

But like most European steel producers, AHV was hit hard by the oil price shocks in the 1970s. By 1981 it was on its knees and began a painful restructuring. The company pulled out of the long product market, mainly in constructional steels, to concentrate on flat products.

A few years later, with some Pta 65bn in soft credits from the Spanish Government, it began modernising blast furnaces and built a new steel shop. In 1986-87, it converted from being 100 per cent dependent on the antiquated blooming and slabbing process of producing steel slabs to make all its slab through three new continuous casting machines. It revamped its hot strip mill.

None of this was easy and the company suffered terribly *as unions fought to maintain* jobs. In 1986, AHV lost 240,000 hours to labour strife. That year, after a decade in the red, losses rose to a record Pta 14.4bn.

Because of Spain's late entry into the European Community (1986), local steelmakers were forced to hurry the process of modernisation and the ending of government subsidy that had been tormenting most of their EC competitors since 1980. French, British, West German and, chiefly, Italian competitors had had successive *injections of subsidy in* their efforts to become profitable again.

"We had only one chance," says Mr Jose Antonio Diaz-Guardamino, AHV's commercial director grimly. "We began (modernising) when everyone in the EC was finishing."

For the moment, AHV looks the better for it. Lost working hours fell to 36,000 last year and losses dropped to Pta 4.5bn. The workforce has been cut to under 7,000, almost half what it was in 1981. The company is expecting to make a small profit this year.

In steel, that may not be enough. The markets are already weakening. "If European producers cannot reach agreement on prices we will all be in the red again in a year," says Mr Diaz.

Ironically, however, that may be Madrid's, rather than AHV's, problem. The Pta 65bn loans made available by Madrid were all convertible into equity. Theoretically at least, the Government owns the company and has recently installed a managing director of its choosing to oversee its investment.

AHV, however, will be hoping *that its* new light, *flat* products, plus new investment in tin plate, will combine with falling interest charges at least to help it survive the coming market slump more or less intact. USX, the giant US steel company has, however, voted with its feet and sold its 25 per cent stake in AHV to the Government.

Peter Bruce

Tom Burns reports on a regional initiative

The SPRI priority: training people to use technology

IF THE Basque Country becomes once more Spain's workshop, it will to a large extent be thanks to the hours put in by Mr Jesus Ramirez and by scores of others who daily make use of the premises in which he works.

Mr Ramirez, 25 years old, is an instructor at a computer training centre that lies a few blocks off the Plaza Eliptica in the centre of Bilbao. Open from early morning until late at night, the centre instils a hushed atmosphere on all who use. It bears more than a passing resemblance to a public library.

The computer training centre in Bilbao is absolutely free

The difference is that that there are terminals taking up every available inch of space and software programmes crowd the shelves. At any given time of the day or night there are some 60 people hunched over the computers and the majority appear to be involved in advanced design projects.

"People just turn up and get on with what they are interested in," says Mr Ramirez. New arrivals simply fill out a form — the centre is absolutely free — and if they are novices they can attend classes that are held regularly in the basement of the ground floor premises.

Mostly the youngsters who are studiously at work by their terminals teach themselves, using the extensive range of manuals available at the centre. The noticeboard by the street door acts as a contact club forum in which users of the centre keep their others abreast with their research and advertise for partners in particular research activities.

This particular centre is one of nearly 30-odd that are financed in the Basque Country under a programme called IMI, Introduction of Microprocessing to Industry, by the Sociedad para la Promocion y Reconversion Industrial, SPRI, the chief industrial policy arm of the Basque Government's Department of Trade and Industry.

At the latest count there are nearly 80,000 IMI programme initiates who regularly use the computer centre facilities and they are on the mailing list for the programme's monthly information sheet that gives details of the new hardware and software arriving at the different centres. Mr Ramirez believes that new centres are urgently required, for he has to turn people away at peak periods such as lunch-time and the late afternoon.

The IMI initiative is a SPRI variation on the Microprocessor Application Programme, MAP, developed by Britain's Department of Trade and Industry. "What we thought was important was precisely what we didn't copy from Britain," says Mr Roberto Velasco, SPRI's general manager "Britain's DTI is essentially concerned with putting microprocessors into companies while our priority is to train people."

What the IMI programme is clearly well on the way to achieving is to create a level of computer literacy among young Basques that will be comparable to the best found anywhere in Western Europe and which, certainly, outstrips what is to be found elsewhere in Spain.

Throughout the various ramifications of SPRI's activities, there are two guiding principles. One is to put a strong premium on what is innovative and in the front line of research, design and production and the second is to make all such novelty available to the general public.

The IMI programme reflects the second principle and so, too, does an ambitious programme, called Spritel, which aims to introduce telematics throughout the Basque Country. The idea is to make high tech and its everyday uses part of everyday life.

The first principle is what underpins SPRI's loans programme which aims to provide low-cost finance to small and medium-sized companies seeking to invest in innovative production equipment and companies. The programme can provide 70 per cent of the maximum credit base, to a limit of Pta 70m, with an interest rate of 8 per cent per annum and a pay-back period of up to six years and a further two years' grace.

In order to be eligible for such loans, companies must be involved in activities related to electronics or applied electronics, industrial automation, computers and data processing, opto-electronics, biotechnologies and the like. At least 20 per cent of the investment under such loans must be for new equipment related to such activities and the companies which obtain loans must be able to offer new products or services as a result of the investment.

In 1988 SPRI approved a total of 38 innovatory investment loans which together were worth Pta 1.2m. This sum represented 40.5 per cent of the below Pta 750m.

The idea is to make high tech part of everyday life

total investment by the 38 companies that came within SPRI's programme. All of them fulfilled the necessary medium/small-sized company requirements of having a labour force of less than 450 and/or a shareholder equity

Nobody could fault the Basque Government and its SPRI arm for the determined way in which it is going about the business of wholly updating the industrial profile of the area. The star turn in this respect is without a doubt the newly inaugurated Basque Technology Park that lies three kilometres from Bilbao's airport and 12 from the city centre.

The park's administrators are united in insisting that what they want is whatever is on the leading edge of technology. "We wouldn't be interested if IBM wanted to come here to build computers, although we probably couldn't keep them out," says Mr Anton Aranzade, the park's chairman. "What we *would* be interested in," he says, warming to his pet theme, "*is an IBM R and D centre.*"

Mr Aranzade has already got what he wants in terms of a crowd-puller for the technology park by way of Industria de Turbo-Propulsores (ITP), a jet engine factory in which Rolls-Royce has a 45 per cent

The technology park's crowd-puller is a jet engine factory

share, Banco Bilbao Vizcaya 4 per cent and a holding company grouping Sener, the Basque engineering company, Casa and Bazan, the public-owned Spanish aerospace and *defence companies*, has the controlling stake. The minister says that having ITP in the park is "a transcendental development."

At the technology park research will be conducted into super-alloys such as titanium which are new to Europe and into new non-metal materials such as composites based on interwoven organic fibres that are as durable and as tough as metals but lighter and more capable of withstanding heat.

Confidence in the park does not appear to be misplaced. The Basque Country has five major research centres linked to different industrial groups, including one financed by the Fagor manufacturing complex of the Mondragon co-operative ventures and it has a sixth expanding research laboratory based at the University of the Basque Country, close to the technology park itself.

A major additional selling point comes with the 10,000 and more manufacturing companies that crowd the Basque Country and form an immediate potential market for the park's tenants.

(far left) Roberto Velasco, SPRI's general manager; (centre) buildings being constructed at the Basque Technology Park, near Bilbao; *(above) checking circuits at* Indelec, a radio communications company

Profile: SENER

In the jet set

JUST OUTSIDE Bilbao, on the eastern bank of the river that runs through the city, is the smart suburb of Las Arenas. The huge, dark homes that dot the place tell of the old industrial wealth of the Basque region. One almost sinister place, surrounded by trees and tight security, is the headquarters of Sener.

It is not a household name in Spain, or anywhere else for that matter, but for decades now Sener's executives and engineers have had access to the most powerful offices in Spain. Sener is an engineering consultancy, based on American giants like Kellogg, but in Spain it is also one of the precious few repositories of brain power capable of matching the technological skills of West German, French, Japanese or American engineers.

Founded in 1956 by a Basque naval engineer, Enrique Sendagorta (later joined by his younger brother Manuel, an aeronautical engineer), Sener now employs about 700 engineers and turns over around Pta 6.5bn a year, planning anything from the infrastructure and drainage at the 1992 Olympic Village in Barcelona to designing a series of rigid but retractable antennae for European Space Agency satellites.

Like most big engineering consultants, Sener, which is still wholly owned by the Sendagorta brothers, has moved a long way from its early specialisation in ship design and process plant. It was one of the few domestic companies to play a major role in the development of nuclear power plants in Spain in the late 1970s and early 1980s and now that business has died down the group has begun to rely more heavily on defence and space business.

Sener is designing the docking mechanism for the European spacelab but probably its biggest technical coup is its involvement in the design and manufacture of jet engines for the European Fighter Aircraft (EFA). Sener has a 13 per cent stake in Eurojet, the consortium making the EFA's engines, and a 25.5 per cent stake in Industria de Turbo Propulsores (ITP), which will assemble the engines for aircraft ordered by the Spanish air force.

Probably the most significant new foreign investment in the Basque country this decade was the decision by Rolls-Royce earlier this year to take 45 per cent of ITP, along with Sener and the Spanish industrial holding company, INI. The deal gives Sener a unique opportunity both to design original parts for the whole engine (primarily, it is responsible for the "hot" rear parts of the engine for all the Eurojet partners) and to build the finished product for Spain.

The bulk of the Pta 15bn investment in the project will go into a plant just outside Bilbao, leaving the Basque country holding the reins of easily the most technologically advanced project ever undertaken in Spain. Given the region's industrial tradition, that is probably its due.

Peter Bruce

Profile: FERNANDO SAVATER

Oasis in a nationalist stronghold

Ethics professor Savater: "like the sleeping princess, the Basques are awakening from a spell"

ONE OF Mr Fernando Savater's preferred spots in his native San Sebastian is the English Cemetery, high up on the Urgull mountain overlooking the city's bay, where dilapidated gravestones hidden among tumbleweed mark the burial site of members of a British legion who fought for the Liberals against the Carlists in the 1830s.

The graves, that enlarged an existing cemetery for the fallen in the Duke of Wellington's Peninsular War campaign, serve to remind Mr Savater that San Sebastian was an oasis of enlightened tolerance and open to international influences at a time when the majority of Basques supported the obscurantist, Tridentine cause of Don Carlos, the feudal-minded pretender to the Spanish throne.

A professor of ethics at San Sebastian's University of the Basque Country and a staunch

He scornfully unmasks the tribal primitivism of Basque extremism

believer in liberal values, Mr Savater is now himself something of an oasis The city has become a stronghold for narrow-minded nationalists and in the October general elections Herri Batasuna (HB), the platform supporting the ETA separatists, was the most popular party in Gulpuzcoa, San Sebastian's surrounding province.

Mr Savater, 46, is one the most penetrating critics that the extreme nationalists face and he is certainly the most outspoken one on their home turf. A regular contributor to the Madrid newspaper El Pais, one of his favourite topics is scornfully to unmask the tribal primitivism that lies behind Basque extremism. HB and ETA are "cavemen" as far as he is concerned.

In a recent article Mr Savater developed the theme, arguing that the ultra-nationalist viewed his political adversary as "an alien, a space invader, who has provisionally adopted the human, that is to say the Basque, form and who wants to establish complete control over the small and valiant planet Euskadi on behalf of that abominable and remote empire called Spain."

The problem, as he sees it, is

"A space invader who wants to control the planet Euskadi"

that the ultra-nationalist feels comfortable viewing all that surrounds him in terms of Manichaean star wars and refuses to contemplate "boring lay divinities" such as historical evidence, economic realities and sheer common sense.

Mr Savater believes that gradually the Basque Country, "like the sleeping princess," is awakening from the spell that was cast upon it by "stupidity's bad witch." More and more people are standing up to be counted and are willing to say out loud that "everything in ETA and in its supporters is a lie except for their crimes."

A prolific author as well as a vigorous polemicist, Mr Savater put himself at the forefront of Spain's young philosophers with a typically controversial book called "Pamphlet against Everything." Ironically, he championed nihilism in this early work and was deeply sceptical about all philosophical systems. Since then, he has concluded that nihilism stops with ETA.

Tom Burns

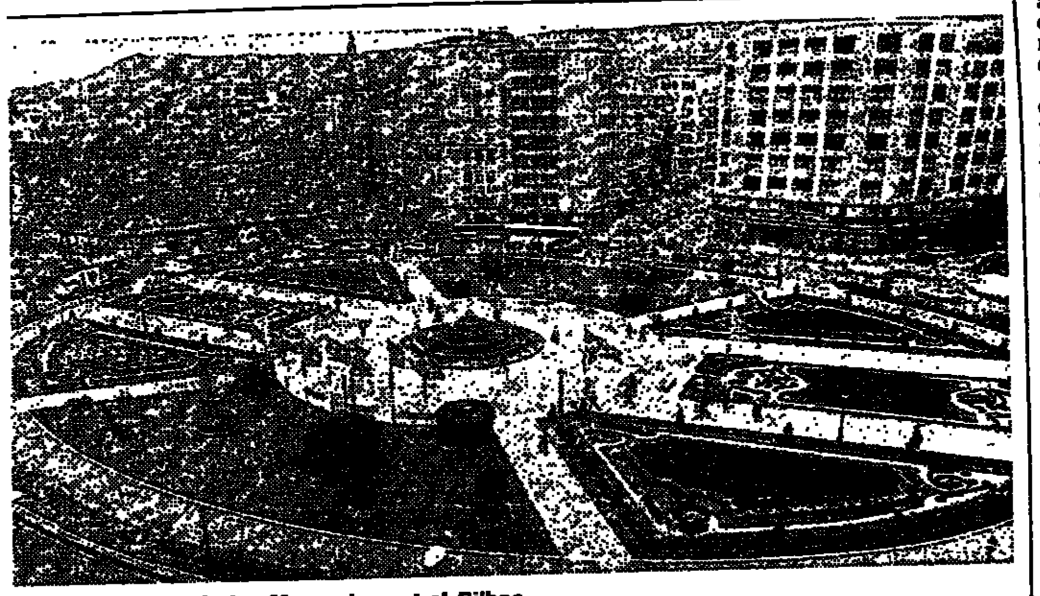
Profile: JAVIER GARCIA EGOCHEAGA

Scars do not show on the surgeon

SPAIN IN general and the Basque Country in particular have undergone one of the most telescoped industrial reconstruction and labour shakeout programmes on record. So Mr Javier Garcia Egocheaga should be covered in battle scars visible to all. He was the prime trouble-shooter for both the Madrid and the Vitoria governments.

A big man, like so many of his fellow Basques, he has the no-nonsense manner of his compatriots and the bluff self-confidence that usually goes with size. The scars, which must exist, do not show: he jests about them.

"We had the lot in Euscadi," he says, reviewing events a decade ago. "Parts of Europe had a steel industry falling on their heads, parts had a shipbuilding or a capital goods industry that was going bankrupt and parts had a mining sector that was collapsing. We had all of that together and at the same time, and a terrorism problem on top of it."



The Plaza de Federico Moyua in central Bilbao

Looking back, Mr Garcia Egocheaga mutters: "Terrible, terrible" and then brightens to say: "Now it is all over and we are picking up again." He can appear like a surgeon who has cut out everything that looks malignant and is now confident of the body's health.

The longest job that Mr Garcia Egocheaga has ever had was his first one. After graduating with top honours from Deusto University's Business School in the 1950s, he was hired by a specialised steel producer and ended up running the company, having built up its export base, in his 30s. Public service beckoned next and his subsequent career gave him an overall view of Basque shortcomings and possibilities.

The first stop, in 1978, was Madrid where the Industry Minister, who had met him at Deusto, put him in charge of framing an industrial policy – a job that required reorganising a slump-shaken sector across the board. The expertise gained in this field made him a natural choice for Industry Minister in the first autonomous Basque Government when the latter was formed two years later; the slump in the Basque Country was greater than anywhere else in Spain.

Mr Garcia Egocheaga was to return again to the corporate

Industry Minister in the first autonomous Basque Government

world when he had a spell restructuring a group of Basque steel producers and he subsequently went back to the local government, this time to serve as deputy chief minister with overall responsibility for the Basque Country's economic affairs. By 1987 he was once more in the private sector and last year he launched his own merchant bank, the Banco de Inversiones y Servicios Financieros, BISF.

In many ways his career has closely shadowed the cyclical rise and fall of the Basque Country's fortunes. He lived through the boom times and he endured the appalling consequences of the depression, he was at the centre of the reconstruction process and he has now firmly tied himself to the mast of a revived Basque economy.

Merchant banker Egocheaga: the region "is picking up again"

From the swings and roundabouts through which he has lived, Mr Garcia Egocheaga has developed two broad ideas. The first is the need to establish co-responsibility among employers, unions and the Government in everything that pertains to industrial policy.

"When I arrived at the Industry Ministry in Madrid everybody expected the Government to pick up the pieces and it was the same when when I went to Vitoria."

Now that the pace of economic activity has picked up, Mr Garcia Egocheaga believes that there is an equivalent urge for a consensus on industrial priorities.

He himself has a very clear idea of what those priorities should be, for this is the basis of his second broad idea. He firmly believes that the Basque

He believes the future lies in harnessing advanced technology

Country's future lies in its ability to harness advanced technology and his most lasting achievement to date has been the series of programmes that he initiated while in the Basque Government to encourage bold investment in R and D.

As a banker now, permanently between Bilbao and Madrid, Mr Garcia Egocheaga is anxious to help finance a wide-ranging rationalisation of the industrial tapestry formed by the Basque Country's host of small and medium-size businesses. He reckons that foreign investment will play a major role in forthcoming mergers and acquisitions.

Tom Burns

هكذا صح الأصل

Peter Bruce seeks to define the uniqueness of a people

Traditions that may be lost

SOMETIMES when it is misty and raining in the steep hills behind San Sebastian and Bilbao, when the slopes go a dark green and the little Alpine homesteads in the distance lose their sharpness, it is easy to lose oneself in the myths and legends that have wrapped themselves around the region since long before recorded history.

They used to say here that the sun and the moon are the son and daughter of the earth, and that at night the sun has come home and that during the day the moon does, too. There are still witches in the Basque Country.

José Miguel de Barandiaran will be 100 years old this New Year's Eve and he still remembers some of the old stories. "In a little while there will be nothing," he laments. "We are losing our traditions. People are not living at home any more."

Television, he says, has seduced Basques into living outside themselves and their culture. "I don't know how it will end."

Anthropological scholarship with racial overtones

Mr de Barandiaran is probably the Basque Country's most famous anthropologist and its oldest surviving national asset. For much of his life he has been at the forefront of a seemingly endless debate about the question that troubles the Basques most. Who are they? Where do they come from?

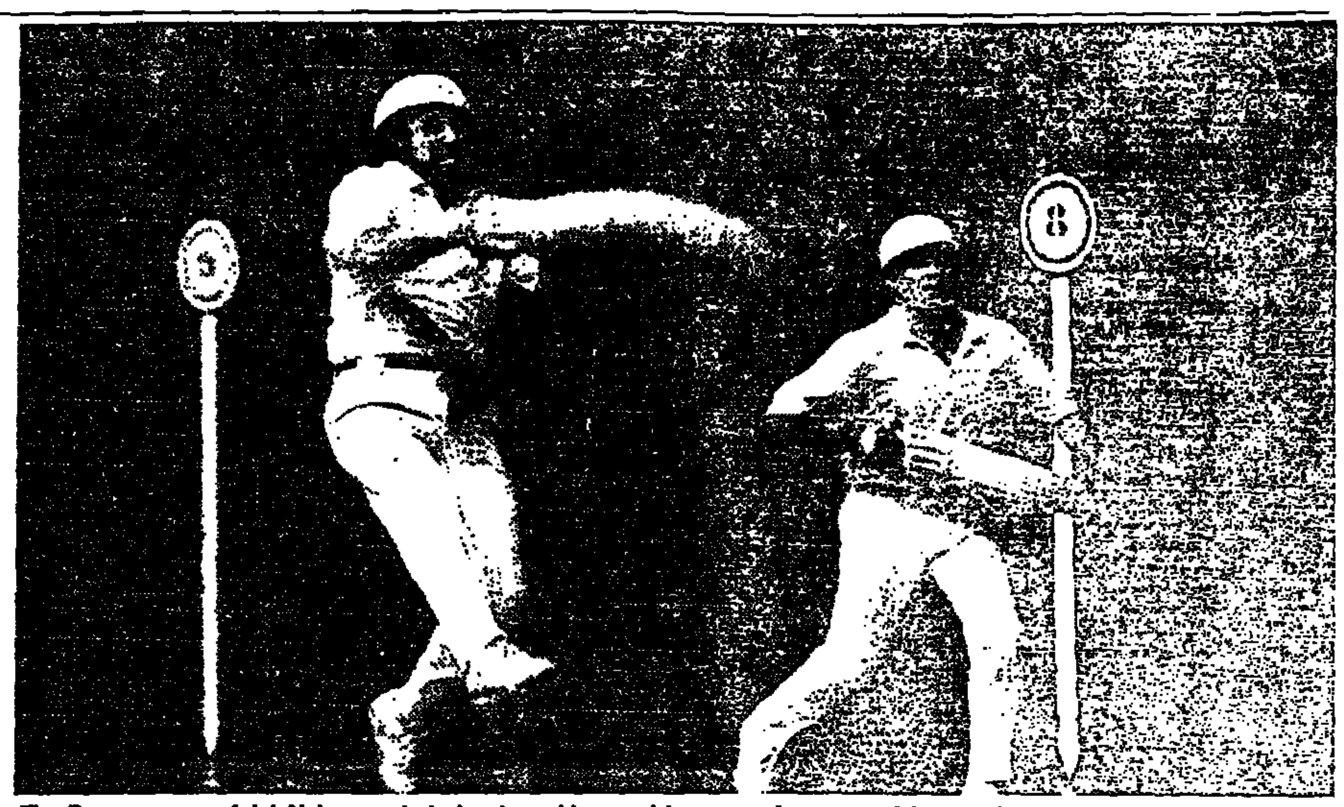
There is compelling, though not conclusive, evidence to suggest, as he says "that we do not come from anywhere. We cannot say for sure but we think the Basques are from here (the Pyrenees), that they date back (more than 10,000 years) to Cro-Magnon Man."

Some scholars have tried to link the Basques to the migrations from the East 3,000 years ago to Western Europe, citing similarities between Euskera, the almost impossibly difficult Basque language, and words used by the Georgians in the Caucasus or to Finnish. Mr de Barandiaran scoffs at the link. "Why should we have come from there?" he asks, "the distance from here to the Caucasus is the same."

"There some words similar to Euskera in the languages of the original South American Indian cultures, but that does not mean we are from Latin America."

Unfortunately, perhaps, a great deal of Basque anthropological scholarship and modern political thought has racial overtones similar to the pseudo-sciences used by white South Africans to prove their racial superiority to blacks. Studies show that a very high proportion of Basques carry "A" group antigens in their blood. The proportion of these antigens increases in people as one crosses Europe from east to west. Secondly, a disproportionally high number of Basques are RH negative, which research has shown is found more frequently in Western Europe than anywhere else in the world.

It was Mr de Barandiaran himself who discovered a skull in the 1930s, dating back to the Stone Age, which had much the same shape as modern Basques – wide, high foreheads and narrow jaws.



The Basque game of Jai-Alai: appeals to local gamblers and has proved a successful cultural export to the southern US

Not that the Basques require anthropological evidence to demonstrate their uniqueness on the Iberian peninsula. Their language and their sports are odd enough. Thus, the phrase "Today San Sebastian looks to the future with hope" becomes *Gaur Donostiak, itxaropenez begiratzen du etorkizuna*. Mr de Barandiaran remembers being beaten at school for speaking Basque – it was once considered uncouth and General Franco banned the language altogether.

Sports, though, have thrived. The Basques are obsessive gamblers and most surviving sports derive from times when one farmer, for instance, may have bet a neighbour that he could cut his grass or chop his timber quicker.

At a field just outside San Sebastian, says Mr Rafael Aguirre, an authority on local sports, crowds of up to 3,000 may still gather to watch two men furiously cutting grass. After the time is up, the cuttings are weighed. At one famous contest in 1965, Benito Otegui scythed 3,416kg of grass in an hour.

Wood chopping (*aizkolariak*) is fantastically popular, drawing up to 10,000 spectators to national competitions. In the "bet of the century" in 1983, two men agreed to see who could first chop his way through six pine trunks 110 *pulgadas* (just over an inch) in circumference and a further 52 trunks 54 *pulgadas* around. The winner, Jose Mari Mendizabal, finished in four hours, 12 minutes and nine seconds, a gargantuan effort.

Stones, too, have become a challenge to rural Basques. People still bet on oxen dragging huge lumps of granite (in lieu of ploughs) across town squares but the big stone sport now is lifting them. Mr Inaki Perurena, whom the Basques call the world's strongest man, is currently in training to lift a stone weighing 312kg onto his shoulders to beat his world record, 311kg, set earlier this year.

On the coast, long boat (*trainera*) rowing is also popular, and Mr Aguirre says he has even heard of a man throwing a beret 30 metres, but easily the most successful sport of all has been pelota, played by hand (or, at incredible speed, as Jai-Alai with a curved basket attached to the arm) in a three-sided walled court.

The fourth side, naturally, is open to the gambling public who scream their bets to bookmakers on the side of the court and puff clouds of putrid cigar smoke onto the court. Apart from Basque cuisine, Jai-Alai has probably been the Basques' most successful cultural export and it is now played regularly in the southern US.

Only time will tell whether the old rural sports have a future. "Young people are attracted only by Olympic sports," says Mr Aguirre, "and if you want to become an axeman you need a lot off logs and time. It gets expensive."

Mr Perurena, who also supports himself with a butchery business, complains that stone lifting "takes time and is not very economic." He is irritated by attempts to adapt the strength contests to modern commercial television and "strongman" contests. "I am not a Strongman," he insists. "I lift stones."

But the old purity is disappearing. At San Sebastian University, Mr Fernando Savater, professor of ethics, says most of his students prefer to be taught in Castillian. Under the Statute of Autonomy, the students can choose Basque-language classes but, he says "fewer and fewer people are speaking it."

That, too, is Mr de Barandiaran's fear. "If they taught in Basque we would not lose the language," he says, "but they are teaching in Castillian." Even Herri Batasuna, the radical nationalist party, admits that there has been an "important decline" in use of the language. "We are talking about a situation in which without extraordinary help the language will not survive," says Mr Jose Maria Sasiein, a member of HB's national executive.

In Alava, the province that hosts the Basque Government, only 10 per cent of the population still speak a Basque dialect and in Guipuzcoa, where the language does best, only about half the population can understand it.

The question facing young people is whether the time spent learning Basque would not be better spent on a language that can be used outside the Basque Country. That might ensure that even at local universities, they were taught by the best people available, not necessarily only those who spoke Basque.

It is a difficult debate, probably still too emotional to be resolved coolly.

FOOD

Where nobody need be hungry

ONE BASQUE boast is that as a people they have long mastered the art of transformation. Alchemists, in the misty backwoods of the Basque communal past, had their allotted place in society just as did the witches in their different disguises and the mysterious "white ladies" who, it is said, take on the appearance of clouds and move from one mountain peak overlooking a forgotten valley to another.

With such a past, it is only to be expected that Basques should have taken naturally to changing iron ore into steel and turning steel plates into nuts and bolts, tubes and machine tools. Nor should there be any surprise over the manner in which Basques have been able to transform that other rich vein of its natural resources – the produce of its surrounding sea.

The biggest conjuring trick of the lot concerns the transformation of dry salt cod, bacalao, into a succession of dishes that lie at the very heart of the Basque Country's culinary expertise and appreciation. Competitions are held to judge bacalao magicians and every restaurant, from Michelin-starred institutions to the lowliest village inn and neighbourhood tavern has cod on its bill of fare.

Nobody would ever so much as dream that *bacalao* is edible

The salted cod, as sold in markets and shops, looks like a hunk of yellowy grey hide that has been left so long in the sun and wind that not even the most expert tanner can turn it into leather. Nobody would ever so much as dream that it is edible.

Men-only gastronomic clubs are popular in San Sebastian

Bacalao has come to the Basque Country in its state of the art biltong-tough variety since time immemorial. The local fishermen chased the schools of cod across the northern Atlantic and brought their catch back weeks later pressed to the texture of linoleum and, for good measure, salted for preservation.

Tradition has it that these fishermen, as they approached their home ports, would start the laborious process of soaking the cod back into life. The nasty looking raw material underwent numerous changes of water until the cod flesh became pliant and scales and bones could be removed.

The soaking and the changes of water are part of cod cooking folklore in the Basque Country. Soak too long, change the water too little, and disaster ensues. Purists will rock the bacalao gently in a basin of water until their arms ache in order to recapture the swell of the sea as the fishing boats returned home.

The actual cooking comes next and mystique once again has a ringside seat at the process. Bacalao al Pil Pil is such a simple recipe (the cod is cooked in its own juices with a little help from olive oil and garlic) that only experts dare make it. If the bacalao is properly cooked, and experts say it seldom is, the gently simmering cod will let off a "pil pil" sound that gives the dish its name.

Basque bacalao, once transformed, lends itself to endless variations. It often ends up in casseroles, cooked with sweet peppers, cured ham and hard boiled egg yolks as in Bacalao à la Vizcaina and it can come also in a dark, richer and spicier sauce that turns it into *Bacalao à la Bilbaina*. It is typical of cod lore that there should be one clearly defined recipe named after Bilbao, the city, and another associated with Vizcaya, the surrounding province.

Merluza (hake) comes a close second to Bacalao in the Basque obsession with sea produce. Elsewhere in Spain hake is fried in batter but the Basques will have nothing to do with such short cuts. They stew it in a parsley sauce (*Merluza en salsa verde*) or with clams and baby eels (*Merluza a la Vasca*). They also give it the quasi-religious "pil pil" treatment.

Baby eels, cooked in oil, garlic and dried chili peppers, served in individual earthenware dishes and eaten with wooden forks, constitute one Basque delicacy and baby squids that float about in their jet-black inky sauce are another. Pride of place in the unusual food stakes, however, goes to the fleshy parts around the hake/merluza's gill that are called kokotchas.

If such foodstuffs should daunt the uninitiated, they should try the extraordinary red bean stew, a cassoulet in which the serving spoon stands upright, quite unaided. The Basques polish it off, wiping up the dish with their bread, and consider it an appetiser.

All such dishes are part and parcel of a gastronomic tradition that knows no equal in Spain. When the Basque culinary trendies take the New Cooking niceties from across the Pyrenees aboard, they add their own ethnic touch to that sophisticated transformation process: nobody ever went away hungry from a *nouvelle* Basque restaurant.

Tom Burns

THE BASQUE COUNTRY 8

Peter Bruce enjoys a visit to San Sebastian

Relaxing without tourists

IF San Sebastian did not exist, and it was for some reason necessary to construct a small, quaint, little city with a dream beach, abundant, irresistible food, gentle, patient, people and completely free of loud package tourists, then it would simply have to be re-invented.

But San Sebastian is already there, probably the most attractive and relaxing place in Spain. The Basque Country's second city and one of its best kept treasures, it seems almost incredible that it has been let off the tourist and speculative horrors of the southern Spanish coast.

There are probably two explanations. First, even though its magnificent La Concha bay is protected from the worst the Bay of Biscay can throw at it, the water is never as warm as the Mediterranean and there is only one hotel, the very fine Londres, that actually overlooks the beach itself. Second, San Sebastian is surrounded by mountains that have made construction almost impossible and driven up property prices in the city to be the highest in Spain after Madrid.

It is a magical place. In the mornings and afternoons, even in November, people march up and down the beach for hours on end to exercise. Some are still swimming, canoeing or surfing. In the evenings townsfolk take to the wide promenade around the beach in their hundreds. There is a most un-Spanish absence of noise. The sun sets directly over the water. Many head eastwards, towards the Urgull mountain that commands one entry into the bay.

They seldom get there, or see the old British war-graves on it that tell of the Anglo-Portuguese attack against the city in 1813 when it stood (curiously, given today's Basque nationalism) with the then French crown in Madrid. For the most part, the people stop in the old quarter, rebuilt after being detroyed by the British, to dip into easily the finest concentration of bars and restaurants in the whole of Spain.

For some reason the *tapas* (bar snacks) in San Sebastian are routinely of a much higher standard than anywhere else in Spain, or the Basque Country for that matter. People move from bar to bar, snatching a *tapa*, a beer, a small glass of wine or local cider before perhaps sitting down at a real restaurant to feast (almost always on seafood).

The impressive thing about the town, particularly the old part, is not merely the throng in the streets late into the night but the fact that the people are locals.

The "dream beach" of San Sebastian

San Sebastian probably existed in the 10th century as a fishing village. On the western hill at the entrance to the bay there is still a watchtower the locals would use to spot whales out at sea. When they spotted one, a fire would be lit to warn the fisherman waiting down in the little harbour near the old quarter.

There is a most un-Spanish absence of noise

Despite a rather colourful military history (largely because it lies so close to France), San Sebastian (or Donostia, as it is called in Basque) remained tiny until a gnawing skin disease forced Queen Isabel II to look for waters that would ease her discomfort. She found them in La Concha Bay and brought the aristocracy with her.

As a summer venue for smart Spaniards, San Sebastian has almost never looked back. Even the dread dictator Franco spent part of his summers in the city.

During World War One, the city became a focus for rich Europeans who had been forced by war to abandon their haunts on the French Riviera but its last 10 years have been difficult. With the coming of democracy to Spain, separatist violence in the Basque Country kept holidaymakers away. The rolling hills behind San Sebastian are the very source of Basque nationalist sentiment and Spaniards were frightened off.

"Our problems started with democracy," says Mr Gregorio Ordonez, the councillor in charge of tourism. As recently as 1986 hotel occupancy was averaging about 33 per cent. But as violence has diminished and democratic Basque parties have begun to reassert themselves, the city's fortunes have changed dramatically. Occupancy last year averaged 88 per cent and it is almost impossible to find hotel rooms in the summer.

"This city has begun to believe in itself again," says Mr Ordonez. In fact, the locals have a particularly effective way of dealing with their problems.

They eat. San Sebastian is home to that most Basque social tradition, the *sociedad gastronomica* (gastronomic society) – all-male clubs which have their own kitchens and where the members cook for each other. There are 70 clubs in San Sebastian alone, with about 10,000 members.

The clubs are jovial places that sometimes allow women in, but usually only before 6pm. In one club, said to be the city's oldest, women are allowed to serve food but not cook it and eat in a section of their own. The Financial Times was told by one expert with a mouthful of hot kidney beans and sausage that San Sebastian's womenfolk did once try to form their own eating society but fought among themselves.

It is almost impossible to find hotel rooms in the summer

The club lunches are long and boisterous but, says Mr Ordonez, that is the point. "People who don't have time to eat don't have time to think," he says.

THE BASQUES are down-to-earth people. There is the one about the Basque farmer who fell off a cliff while picking mushrooms one misty evening, only to be saved when caught half-way down by a tree. A passing priest, having witnessed the miracle, could hardly contain himself.

"Thank God, my son. He has saved your life. Let us thank him and pray together."

"No way, father," said the farmer, picking his way down to the ground, "I'll thank the tree instead."

Though that is not a very funny joke, it should tell one something about the Basque Country. It is not a very humorous place.

But they do call a spade a spade, which can be refreshing in Spain. A handshake in the Basque Country is a promise. The Basques have been living in the hills that run down to the Bay of Biscay for more than 10,000 years and have not survived that long by sleight of hand. They are hard and true.

Perhaps it is their behaviour that sets the Basques apart. They don't dress up, for example. Sartorial elegance is considered, well, cissy. Basques are probably the most socially democratic, least class-conscious people this side of the Atlantic. This has to do with a home-grown institution called the *cuadrilla* and which is part drinking club, part self-help guild and part mutual admiration society.

Every Basque belongs to his family, where the mother rules the roost, and to the *cuadrilla* he joined as a schoolboy in his village or neighbourhood. Each later goes his own way but the *cuadrilla* lasts a lifetime. The Basques form very tight tribes.

That is not to say they are uncompetitive. A Basque, on his own, is a political party, put two together and they will quickly start betting against each other. Three will form a choir and sing sentimental songs.

A foreign businessman landing in the Basque Country will soon be making his own personal list of idiosyncrasies.

BUSINESS GUIDE

It is useful to know in advance, however, that Basques eat like horses and drink like camels after a desert crossing. A business lunch may well take place in a refurbished *caserio* with spectacular views over an isolated valley. Such farmstead inns serve banquets instead of meals.

One should be aware, too, that although the Basque Country has some of the finest roads in Spain, driving from one place to another can be hazardous: the sign saying Bilbao will more often than not be blackened out by a spray can enthusiast who finds Spanish offensive and it as well to remember that Bilbo is the city's name in Euskera.

Another serious problem for foreign visitors mad enough to take their own cars and pay the extortionist tolls on the main highways is that once in the country, where thousands of small manufacturing companies are based, signposting is almost non-existent. Signs in Bergara (Spanish maps all have it as Vergara but there is not a sign anywhere that spells it like that), for instance, will point you to the next town and the next town only.

Still, the best way round the region is by car. A good bus service runs between Bilbao and San Sebastian but most people doing business would need to get into the country where the factories and head offices are. Make sure, though, that you have very precise directions.

People forget, for instance, to tell one that access to Bilbao's airport is awful. One follows the airport signs off the motorway only to grind to a halt in endless traffic jams that wind through another 15-20km of town.

Once in Bilbao/Bilbo, life is made a lot easier thanks to the Hotel Ercilla. On a normal evening half the people one wants to meet in the city are to be found in the hotel's bar.

Everyone goes to the Ercilla, from growling, leather-jacketed separatist politicians to the smooth men who run Spain's biggest banks. The other large hotel in town, the Villa de Bilbao, is only a last resort.

The Basque Country in general and Bilbao in particular admire Britain and things British to a touching degree. The Basque flag is a Union Jack with green instead of blue. Bilbao has a men's club, La Bilbaina, that could be any of the top-notch ones in London and Deusto University's old boy network is just as familiar.

Apart from a brief tiff at the beginning of the century, when the Basques supported the Boers against the British in South Africa, ties with Britain are like nowhere else in Spain. Sir Ramon de la Sota, the Bilbao shipping magnate, was knighted for putting his fleet at Britain's disposal during World War I. Nearly 30 years later the party he bankrolled, the nationalist PNV, was to help in early intelligence work, mainly by collecting sand samples for Allied engineers, ahead of the D-Day landings.

Vitoria, the capital, is best left to day-trips from either Bilbao or San Sebastian. The city, though pretty in parts, now has all the hallmarks normally thrust on new bureaucratic centres – large blocks of apartments ring the place and it dies at night. Most senior politicians and functionaries commute from the coast, and they should know. If you must stay over, the Hotel Gasteiz (Vitoria, in Euskera), is the best bet.

In San Sebastian, easily the most attractive city in Spain the only place to stay at is the Hotel Londres. It has a spectacular view over La Concha beach and bay. Though the hotel has only four stars, it is welcoming, efficient and clean. The huge, statuesque, Maria Cristina is probably better but you can't see the sea.

San Sebastian is brim-full with great restaurants and the small bars in the old town serve the best snacks in the land. If you are really hungry, try the Bodegon Alejandro in a street called Fermin Calbeton. The almost absurdly young chef, Martin Berasategui, has a repertoire of traditional and more fashionable Basque dishes that boggle the mind and delight the palate. And it is not expensive.

One treat in San Sebastian, if one has the right business contacts, is to get into one of the Sociedades Gastronomicas (eating clubs) – men-only clubs where members cook for each other. These are the last redoubts of real Basque food.

Peter Bruce, Tom Burns

EDUCATION

The Deusto springboard

THE MERITS of Deusto University as an academic centre may be debatable, but its role as springboard to success in the Basque Country is undeniable. It is the network's first and only port of call in the area: it is Eton, the Brigade of Guards and Trinity College, Cambridge all rolled into one.

Deusto, according to author Patxo Unzueta, an acute observer of the Basque society, is "more than a university." The ponderous neo-classical buildings that form its campus on the banks of Bilbao's Nervion river were "the reproduction centre of the ruling elite that emerged in the heat of Vizcaya's industrialisation."

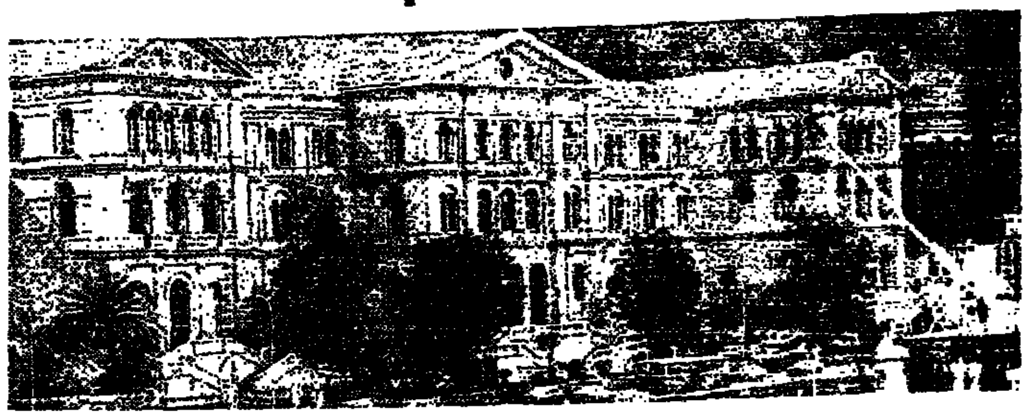
The situation has not changed since those turn-of-the-century days. Deusto alumni appear to have a stranglehold on business in the Basque Country. The Banco Bilbao Vizcaya whose two co-chairmen, Mr Jose Angel Sanchez Asiain and Mr Pedro de Toledo were not only at Deusto but also taught there, is a case in point. Seven out of the bank's 12-member executive board graduated from the university.

Mr Pedro Luis Uriarte, head of Bilbao Vizcaya's operations in the Basque Country and a former president of the Deusto Old Members' Association, says that those who pass through the university's hallowed halls tend to disciplined, responsible and extremely hard-working. The bank continues to snap up the brightest and the best that graduate each year.

The network, however, spreads beyond banking and business and into politics. When the Basque Country regained its autonomy status and the first home rule government was formed in 1982, no fewer than 10 out of the 14-strong local executive were Deusto alumni.

The mainstream nationalist party, the Partido Nacionalista Vasco (PNV), is strongly connected to the university not least because its charismatic party chairman, Mr Javier Arzallus, is to be found teaching law at Deusto when he is not rallying the faithful around in his constant tub-thumping tours of the Basque Country.

It is a comment on Deusto's deep penetration of local society that one of ETA's founders, Mr Julen Madariaga, was a member of the 1952 class. Mr Txabi Etxebarrieta, a noted ETA gunman during the Franco dictatorship, was also at Deusto as was Mr Txema Montero, a lawyer who is currently a member of the European Parliament representing Herri Batasuna, ETA's political front organisation.



The University of Deusto in Bilbao

It is ironic that out of Deusto have come those who have built up the Basque Country's economic strength – "the development of big industry in the Basque Country would not have been what it was but for Deusto," says Bilbao Vizcaya's Mr Uriarte – and those who have sought to tear down that same industrial fabric.

The extensive net that Deusto casts over the Basque Country can be readily explained at one level in as far as it was the only higher education centre in the area until the creation at the beginning of the 1980s of the Universidad del País Vasco, a public university financed by the Basque Government. But its former position as a privileged monopoly does not wholly explain the imprint that Deusto makes on those who attend it.

More than anything else, the character of Deusto is formed by the Society of Jesus, the Jesuit order. The university was created as a special school in 1886 by a group of Bilbao business leaders to cater for the educational requirements of what they perceived would be the growing economic importance of the city. These founding fathers turned to the Jesuits to organise and to run the school and, barring a brief period during the republic of the 1930s when the order was expelled from Spain, the Jesuits have remained in control ever since.

The Jesuits, founded by the 16th century Basque, Ignatius of Loyola, are on their home turf in the Basque Country and their role in its society is often likened to the one they played in the Paraguayan mission. Deusto is their powerhouse.

Currently, only three professors at Deusto's business school are actually Jesuit priests and for the first time the dean, Mr Antonio Freije, is a layman. But the Jesuit ethos pervades the campus. There is a crucifix in every lecture hall and Christian values form part of the study programme.

Of all Catholic religious orders, the Jesuit one has understood best the importance of training elites and it has also traditionally put a high premium on scientific and technical education. Economics, geared to business, was taught at Deusto 40 years before it was introduced to the university curriculum elsewhere in Spain and Deusto boasted a computer centre 10 years ahead of its peers.

Mr Freije puts great store by Deusto's 100-year-old tradition. "It pulls us along, it's our greatest asset." He stresses that Deusto has evolved its own system, making extensive use of its old alumni in the Basque business world who remain closely connected to the institution. "Although we are continually looking at what Harvard and other such places are doing and also studying the Japanese systems, we have developed our own technology."

It is only to be expected that Deusto's business school turns out high-flyers. Every year it has 850 applicants for 150 places and only those who have gained top grades throughout their school career bother to apply. In the first year as many as 20 per cent of the intake drop out under the competitive pressure.

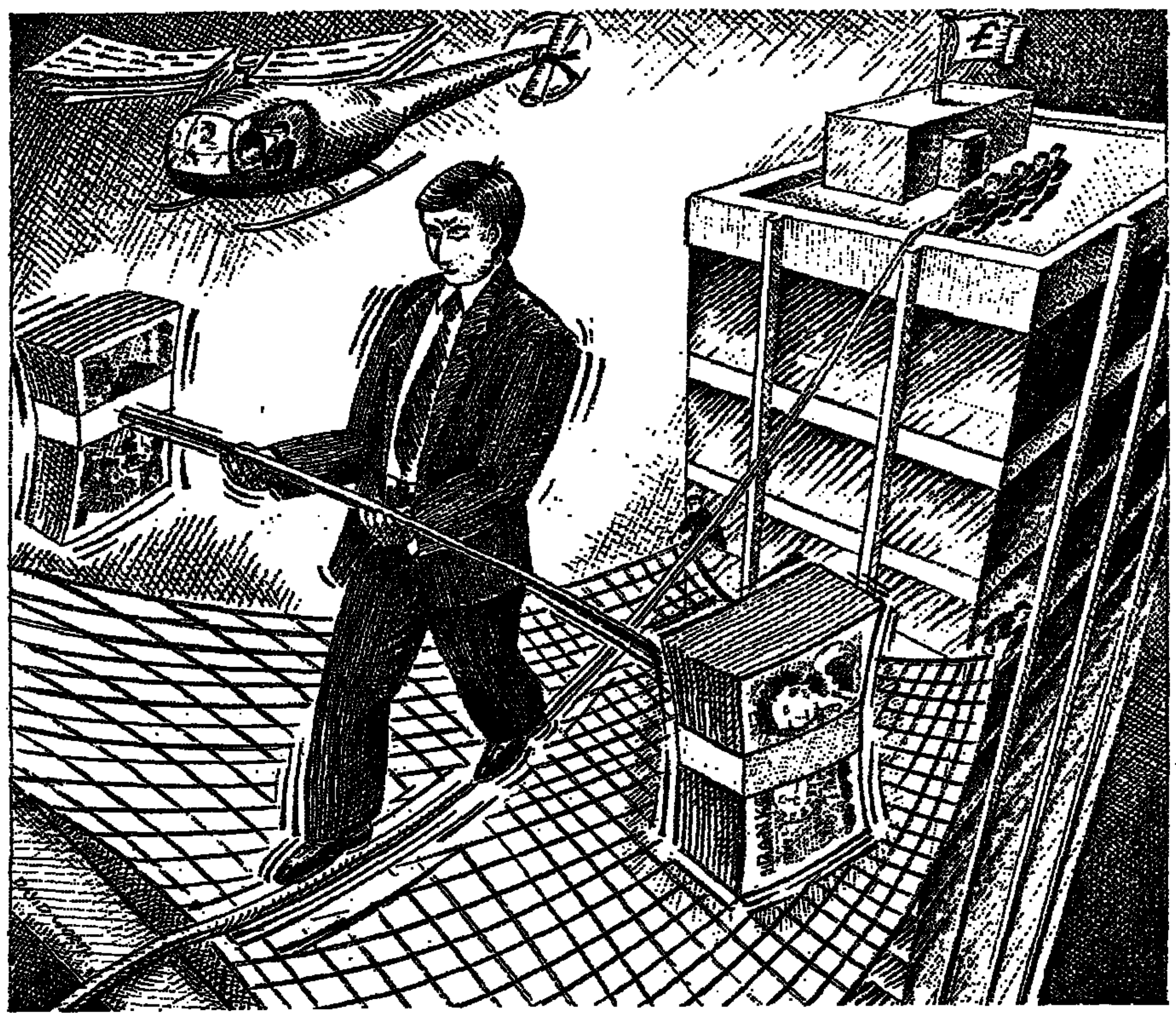
Tom Burns

It is not only their behaviour that sets the Basques apart. Though sartorial elegance is not their style, the beret is one of the Basques' distinguishing features, particularly popular among old men

SECTION III

FINANCIAL TIMES SURVEY

The industry has been an enthusiastic supporter of buy-outs but has earned some criticism for its failure to help young businesses. Increasing problems with buy-outs seem likely to encourage more interest in early-stage investments. Charles Batchelor investigates



Venture Capital

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Editorial Production: Phillip Halliday
Illustration by David Worth

Poised for a radical shift

THE BRITISH venture capital industry appears poised for a radical shift in emphasis – away from the management buy-outs which have dominated investment strategies in recent years.

More funds seem destined to go to help small companies to get started, and to finance later stage deals such as buy-ins, corporate rescues and refinancings – all of which require a more hands on approach.

This abrupt shift in mood has come in response to recent sharp interest rate rises, which have made buy-outs decidedly less attractive. Only a small number of buy-outs have been forced to refinance themselves but venture capitalists and buy-out specialists have begun monitoring all their buy-out investments with extra care.

"Buy-outs have been a bull market phenomenon," says Mr Ronald Cohen, chairman of Alan Patricof Associates. "But in the long term it is impossible to get high returns without high risks. Venture capitalists must concentrate on start-ups and early stage financing at the small end, and on buy-ins and restructuring at the big end."

Disillusionment with buy-outs has come rapidly in recent months though it will take some time to show up in statistics. This year will still prove a record for management buy-out investments with £5bn spent in the first nine months, compared with £4.4bn in the whole of 1988.

"The industry has been through a quiet patch during the summer and there has been a lot of strategic thinking," says Mr Tony Lorenz, managing partner of ECI Ventures. "People are asking where the opportunities will be and what skills they have to offer. Over the next two to three years venture capitalists will begin to focus on particular areas and to differentiate between the services they provide."

One area which the venture capital industry is keen to encourage is seed finance – the provision of very small amounts of finance needed to turn an idea into a business. The British Venture Capital Association, which represents more than 100 of the largest companies, has been looking at ways to promote seed investments. The association's first thought was to encourage members to set up seed funds, but it has switched the emphasis to providing training and support for a number of small seed funds backed by newcomers to the industry.

A change for the better is under way in an area which has been a cause of concern – the lack of venture capital finance outside London and the south-east. The sums invested in the north of England and the Midlands doubled in 1988 while spending in the south-east and London fell from 57 per cent of all investments in 1987 to 49 per cent last year, according to the association.

This move to the provinces is in part a response to the cost of maintaining an office and of doing deals in London. "You can't do the smaller deals of £100,000 and upwards from London because of the costs of executive time and of the infrastructure," says Mr Michael Proudlock, managing director of Granville Development Capital. Granville is raising a £10m fund to make investments in the west Midlands.

One area which the venture capital industry is keen to encourage is seed finance — the provision of very small amounts of finance needed to turn an idea into a business

The relative neglect in the past of opportunities outside the south-east has meant that venture capitalists can often arrange more attractively-priced deals in the Midlands and the north. A growing number of London-based groups are backing regionally-based funds to make smaller investments. Their hope is that these small investments will grow larger and become viable propositions for the bigger London-based groups.

Even without a strong regional presence, the UK industry has expanded rapidly over the past decade.

At the end of the 1970s there were just 20 funds with some £20m invested. There are now about 150 funds, and investments last year amounted to £1.4bn – an increase of 35 per cent on 1987. The growth of recent years has come as independent funds have been spun off from, or set up alongside, the early bank-owned funds.

The next big shift in the industry – and one which may challenge many of the established players – will come if the large clearing banks move strongly into direct venture capital investments. The banks have their specialist development capital subsidiaries which mainly handle the larger deals. They are starting operations to handle the smaller end of the market.

National Westminster Bank, the largest UK bank, set up NatWest Growth Options four years ago to provide small businesses with subordinated loans carrying an option for the bank to convert some of the loan into equity.

The bank, which exercises its option when the business has established itself, has provided 54 of these loans. A year ago it began making straightforward equity investments in small companies and has completed eight.

"We can offer one-stop finance – loans and equity – and have the advantage of being a safe clearing bank as opposed to a venture capital company which the businessman may not have heard of," says Mr Bob King, head of Growth Options.

Barclays Bank, also began providing small amounts of start-up and expansion capital earlier this year when it teamed up with Baronsmead, an established venture capital group. Barclays has set aside £20m for these investments, which will be assessed and monitored by Baronsmead. Barclays will second its staff to Baronsmead to gain experience.

The move by the banks into direct equity investments may soak up the flow of deals which are at present picked up by other venture capitalists. Growth Options gets 65 per cent of its deal flow from NatWest's own branches.

It is not only the big clearing banks' move into direct venture capital investments which is worrying the independent funds. The large financial services groups are channelling more deals through their own venture capital subsidiaries at the expense of the independents. Morgan Grenfell is the latest of the large fund managers to set up its own development capital arm.

This is mirrored by a trend among the large deal-makers to finance transactions entirely in-house.

"There is less syndication than there used to be," says Mr Lorenz. This will increase pressure on venture capital groups to initiate their own deals. Those which have helped finance deals arranged by others may be squeezed out.

Notwithstanding these shifts of power between the various players the venture capital industry continues to grow. Venture funds have raised £1.7bn of new finance so far this year compared with £739m in the whole of 1988. Most of these new funds are accounted for by funds targetted at buy-out, buy-in and other later stage deals. Now that buy-outs have lost their shine any further buy-out fund-raising can expect to run into resistance from investors.

In Europe, fund-raising has continued to increase and in 1988 the rate of growth exceeded that of the US for the second year running.

The size of the European investment pool (funds invested and available for investment) rose by 18.5 per cent to Ecu 18.7bn (£13.3bn) compared with a 7 per cent rise in the comparable US pool to Ecu 26bn, according to the European Venture Capital Association.

Britain continues to lead the European venture capital industry, accounting for 56 per cent of all fund-raising in 1988. The venture industry is nevertheless developing rapidly in countries such as France, the Netherlands and Italy.

British funds are continuing to extend their influence in Europe, forming links with continental venture capitalists and raising new funds dedicated to the Continent. Even so, UK funds with a continental dimension are in the minority and those which do have continental links are likely to be at an advantage as Europe moves towards the single market in 1992.

The slow-down in the UK economy and the degree of change under way in the venture capital industry are likely to lead to some casualties, according to some venture capitalists. "Only half of the existing venture capital firms will still be in business in five years' time," forecasts Mr Proudlock.

However, venture capitalists have been warning of mergers and failures in the industry for some years now and their gloomy predictions have not been fulfilled.

The high level of returns provided by venture capital suggests that there will be a steady demand for the people who can effectively manage such investments.

The outlook for the financing of embryonic business ideas is rosy, says **Charles Batchelor**

Seed capital grows on support from EC

THE OUTLOOK for seed capital, which provides funding for the most embryonic of business ideas, is brighter than at any time in the past decade.

The European Commission this month launched an ambitious programme to back 24 seed funds throughout the community while in Britain new, privately-backed funds are being planned on an unprecedented scale.

This represents a marked contrast with the position of only a year or so ago when seed and other early stage investments by the venture capital industry appeared to offer few attractions.

The high returns which were then available from management buy-outs and other later stage investments meant few venture capitalists had any time for the more difficult task of nurturing very early stage projects.

British venture capital funds made just 24 seed investments in 1987, according Venture Economics, a venture capital research group. The total amount invested was £1.9m or 0.2 per cent of total investment activity in that year.

Even so these numbers represented an increase on 1986 when only eight seed capital investments were recorded.

Throughout Europe seed investments have been equally meagre. Seed funds invested just Ecu 9.2m (£6.4m) in 77 companies in 1988, equivalent to 0.3 per cent of all venture capital spending, according to the European Venture Capital Association.

In the US, by contrast, seed investments have consistently accounted for 2 per cent of venture spending. In 1987, 2 per cent represented a spend of $80m.

The change that is occurring has been spurred by pressure from governments and the European Commission; by high interest rates which have taken the gloss off buy-outs; and by the realisation that the previous neglect of seed capital has created a potentially profitable market opportunity.

"There has been a big turnround," says Mr Richard Hargreaves, chairman of the British Venture Capital Association and managing director of Baronsmead, a venture capital fund. "We have had managers coming to us saying that they want to run seed funds. Seed finance will never dominate the venture capital industry but there is a lot more interest."

The interest in seed capital contrasts with the position of a year or so ago when seed and other early stage investments by the venture capital industry offered few attractions

Seed capital in Britain has been provided by a small core of dedicated funds over the past few years.

They include Seed Capital, based in Henley, Oxfordshire, and Oxford Seedcorn, which both concentrate on technology and science-based investments; and JMI Advisory Services, a London-based fund which is broadening its activities to include non-technology ventures.

These funds manage, by venture capital industry standards, very small amounts of money and usually have to subsidise the high running costs of backing embryonic business ideas by other activities such as consultancy and publishing. They are backed by larger venture capital groups which do not find it economic to make their own direct seed investments.

The European Commission is to back a further three UK seed funds as part of its support for seed capital throughout Europe. The UK funds are Korda Seed Capital, which raised a £5m earlier this year, the Tay Euro Fund in Dundee and the Yorkshire Acorn Fund in Leeds.

The commission is also supporting seed funds in West Germany, France, Italy, Spain, the Netherlands, Belgium, Greece, Ireland and Portugal as well as three "transnational" funds.

The commission's support takes the form of a reimbursable interest-free advance of up to 50 per cent of the operating costs of these funds over their first three to five years and a contribution of up to 25 per cent of their capital needs with an upper limit of Ecu 250,000. After five years the funds are expected to be fully self-supporting.

The commission-backed funds will typically make individual investments of between Ecu 25,000 and Ecu 100,000. The companies in which they invest will be expected to have annual sales of less than Ecu 100,000, fewer than 10 employees and existing risk capital funds invested of no more than Ecu 50,000.

The reaction of the venture capital community to the commission's seed capital programme has been mixed. Some venture capitalists welcome the extra funding but others are concerned that the commission's vision of a Europe-wide seed capital network may be over-ambitious.

The scheme will depend on the skills of the seed fund managers who have been selected. Any attempt at "social engineering" by backing worthy but unviable projects will only distort the still embryonic market for seed capital investments, the critics point out. But since the commission had more than 80 applicants from which to choose there is a good chance it has been able to pick some winners.

In the UK, the British Venture Capital Association has spent the past 18 months looking at ways in which it could encourage seed capital. Its initial plan was to sponsor a number of funds of between £5m and £10m to specialise in areas such as bio-sciences and medical products though it has scaled back its proposals.

"There has been a change in emphasis," explains Mr Michael Denny, chairman of the association's seed capital committee.

"As we developed our thinking we realised we would be competing with our own members. At the same time two or three seed fund management groups began to emerge so we decided to put our weight behind helping them get going."

The three funds which the association is helping are described by Mr Denny as a Scottish fund, the main backer of which is an US technologist; a Middlesbrough-based fund initiated by a local businessman; and a fund in the Liverpool/Manchester area.

The association help consists of advice on how the funds should be structured, assistance with fund-raising and suggestions on how to make investments.

In addition to these funds, Mr Poulden at JMI says he plans to raise a second fund in early 1990 while Mr Alex Korda, chairman of Korda, says he plans to raise a seed fund in France.

Hargreaves: a lot more interest in seed finance

Meanwhile 3i, Britain's largest venture capital group, plans to set up a seed capital fund jointly with a UK university, says Mr David Thorp, who is in charge of start-up investments. 3i already provides finance for two other seed capital funds, the Quantum Fund at Edinburgh University and Oxford Seedcorn.

There appears to be no shortage of either cash or the will to back seed investments. But very early stage ventures are the most risky and it remains to be seen whether the new arrivals have the skill and the patience to make their investments pay.

From a straight sale to refinancing, **Nikki Tait** examines exit routes

Economic climate freezes options

MFI: a well-publicised management buy-out with problems

THE FIRST consideration of any venture capitalist, claim the cynics, is "What is my exit?"

That may be unkind in many cases, but the funds are clearly supplied on expectations of a certain rate of return over a given time-period. At the end of the anticipated investment period, there will inevitably be a requirement to realise funds for reinvestment elsewhere.

The main exit routes are fairly familiar. At one extreme, there is a straight trade sale of the business, so that it acquires a new parent and the venture capitalist gets his return in simple cash. At the opposite end, there is a possible refinancing, so that new venture capital partners, or other investors, are brought in to replace the original backer.

In between, come any number of alternatives, ranging from management buy-outs, through flotations, to share buy-ins, or, ultimately, a liquidation. The relative merits of these options depend heavily on the nature of the business, the structure and requirements of the management, the time-horizons of the capital providers and so on.

They may depend on general economic conditions. This is a point which has been well-illustrated over the past couple of years, when the fluctuating fortunes of the stock market and the broader impact of a fast-changing interest rate scenario have provoked considerable variations in the relative attractiveness of the different exit options.

The trade sale, although often the least-noticed exit route, is generally accepted as the most prevalent. One accountant specialising in this area estimates that of the deals he is involved with, about 80 per cent represent trade sales and only 20 per cent cover the other alternatives.

A number of venture capitalists also warm to the trade sale routes – for rather obvious reasons. Both in theory and practice, there are good reasons for expecting this option to generate the highest exit price. The buyer can be required to pay a premium for control on the grounds that there are technical or synergistic benefits to flow from the deal. The venture capitalist's entire investment will probably be unlocked. And he is quite likely to receive a straight cash return.

Some players in the venture capital market argue that this is an increasingly attractive option in the economic circumstances. They point out that a trade sale of what is usually a small or medium-sized venture capital-backed business to a larger parent company can offer a welcome stability, particularly from a financial viewpoint. Moreover, management of the venture capital-backed company can at least choose its partner. By taking the flotation route, say, and then finding itself with a flagging share price, independence can be threatened in a less friendly fashion.

The flotation route has, in any case, virtually dried up over the past year. Again, the causes are obvious. The state of the stock market, and its very considerable volatility, acts as a considerable deterrent to taking this option.

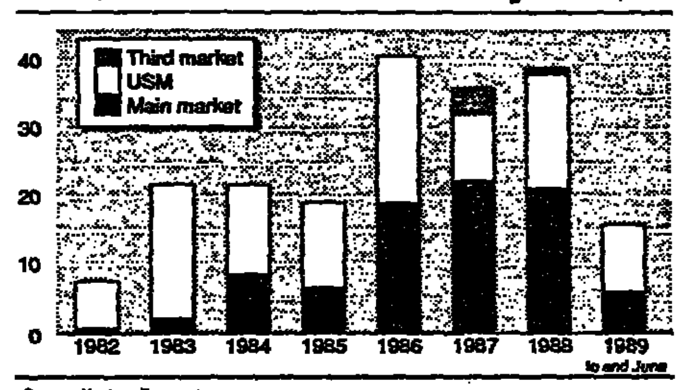
The trade sale, often the least-noticed exit route, is seen as the most prevalent

In particular, the main benefit of having a stock market quote, such as the ability to raise future funds or to use quoted paper to fund acquisitions, is no longer apparent.

Rights issues, like flotations, have dwindled to a trickle, and there is little attraction in using lowly-rated paper to fund deals where the private vendor is still able to command higher exit multiples. A number of venture capital companys talk of issues being put on ice, and other options examined.

Many profess to be fairly sanguine about this. The point is made that flotation, although it may flatter company directors' egos and bring genuine incentive benefits if a wider spread of staff have shares in the group, will probably only unlock part of their holding, and merely revalue the rest at stock market levels.

UK venture-backed flotations by market



Source: Venture Economics

There are some venture capital outfits who seek to exit entirely on flotation, but their very presence tends to diminish the opportunities for others. Moreover, the bid premium generated by a trade sale will not be achieved, and this is a relatively costly exit option.

The main exit routes are fairly familiar, at one extreme there is a straight trade sale . . . at the opposite end, there is a possible refinancing

If flotations have been difficult for some time, the management buy-out market has turned sticky since the early summer. This is attributed directly to the interest rate policy being adopted and has not been helped by the furore and subsequent problems at a couple of well-publicised management buy-outs, in particular Magnet, Lownes Queensway and MFI.

One corporate finance executive sums the situation up: "A year ago, the vast majority of deals could be leveraged. Now it's more difficult. MBOs will continue to happen, but a number of major institutions either burnt their fingers or watched others getting their fingers burnt. It's all become much more difficult."

Other routes, such as replacement capital and share buy-ins, have never developed such wide applicability.

The principal problem with the replacement capital route is price. The exiting institution clearly wants to maximise the return achieved to date: the incoming institution wants a price low enough to generate a return commensurate with what it sees as the risk over the forthcoming investment period. Finding an exit/entry price which pleases both sides is by no means easy, and the incumbent institution can usually point to more attractive options.

Buy-ins, on the other hand, have the advantage of being low cost, but the number of venture capital-backed situations which can afford to increase gearing and reduce their capital base are relatively small.

Whether the economic situation will lengthen the time-horizons of venture capitalists is a moot point.

"It's almost always been a seller's market, except for a few months in 1984," remarks one observer. "There will always be demand for a well-managed company."

If that is correct, the shift in emphasis within the exit options may continue, and the rate of exits decline only modestly.

The selection of a backer has become easier as the industry segments, reports **Charles Batchelor**

Finding the right place in a finance queue

THE VENTURE capital industry's rapid growth over the past decade has meant that equity capital is available in unprecedented amounts. It has also meant that the entrepreneur is faced with a bewildering choice between the various sources of finance.

Selecting a backer is of crucial importance. If the entrepreneur scatters copies of his business plan around the City *his proposal* is likely *to* look shop-soiled by the time it reaches the financier most likely to help. Venture capitalists do not like to feel they are the last in the queue.

The venture capital funds themselves are not always particularly *helpful*. They want to maximise their deal flow – the number of propositions which are put to them – so are reluctant to define too closely what deals they are interested *in for* fear of excluding an attractive proposition.

Often the venture capitalist is unable to be too precise though he may give a rough indication of the size of deal he is interested in.

Some are not interested in deals of less than say £5m or £10m while others do not have the resources to back deals *of* this size. But usually the venture capitalists' decision to back a deal *depends* on his individual assessment of the management team and on the balance of his portfolio at any particular time.

The problem of choosing a venture capital backer is becoming slightly easier however as the industry begins to segment into more specialist funds and as venture capitalists devote more time to marketing themselves to a particular target audience.

Technology-based investments have fallen out of favour since many venture capitalists suffered losses in this area in the early 1980s but there is a small core of dedicated technology investors which have continued to raise *new funds* and a handful of new entrants over the past year or so.

The venture capital funds themselves are not always particularly helpful

Recent developments include a £20m fund from N M Rothschild *to finance* companies involved in materials technologies, a third Bio-Sciences Fund worth £6m from *Transatlantic* Capital and a £1m Technology Growth Fund from the Welsh Development Agency. Hambros Advanced Technology Trust has a fund to invest at least £1m in young companies that are based on science parks.

Seed capital for very early stage ventures has been in short supply though there has been a marked increase in interest over the past year *with a number of funds* planned.

Because of their small size and limited resources seed capital funds tend to invest in their own locality. This geographical bias is also a characteristic of the growing number *of* regional and local venture capital funds.

Local authorities and enterprise agencies have shown increased interest in venture capital with new funds recently launched in Ealing, the Wirral, Somerset, and the black country (west *Midlands*).

3i, the largest UK provider of venture and development capital, *has a network of regional* offices while a number of other, London-based groups, *are developing* or *adding to* their regional networks. ECI Ventures says it is considering *backing funds in the Midlands* and East Anglia.

The venture capital industry has traditionally been segmented along the lines of the source of funds available to the venture managers. This system of classification is less helpful to the entrepreneur *looking for* backing than the division along the lines of technology/non-technology, seed/later stage but it does help explain *the structure* of the industry.

Venture capital in the UK and elsewhere in Europe has usually been started by offshoots of the large banks and other financial institutions.

These "captive" funds – Lloyds Development Capital and County NatWest Ventures, for example – operate independently of their parent company and have separate management teams but normally draw on the resources of the group for funds. They tend not to raise their own funds from outside investors.

As the industry has expanded the captives have been challenged by a growing number of independent management teams such as Advent, *Alan Patricof Associates* and Alta Berkeley Associates, which raise funds in the market. *Many of these funds have* links with US funds whose US investors often provide some of the finance to the UK teams.

Independent status might suggest that these funds are more entrepreneurial than the bank and institutionally-owned captives but highly innovative venture teams can be found in both groups. *Most of the* independent funds are private but a growing number has gone public over the past year or so in order to qualify for investment trust status.

Business Expansion Scheme (BES) funds form a third sector of the venture capital industry though one that has been declining in importance. *This* is partly the result of an increase in the number of single company BES issues which allow investors to target a particular venture.

The Government's encouragement of BES investments in rented housing has siphoned off most BES funding leaving little over for backing higher risk, non-property ventures.

Local authorities and publicly-owned regional development organisations are significant providers of funds at a local level though their impact overall is small.

In the US and increasingly on the Continent large companies finance venture capital groups but in Britain corporate venturing, as this activity is known, has failed to catch on. *Companies which do it* are usually seeking access to technologies developed in small companies rather than financial gain.

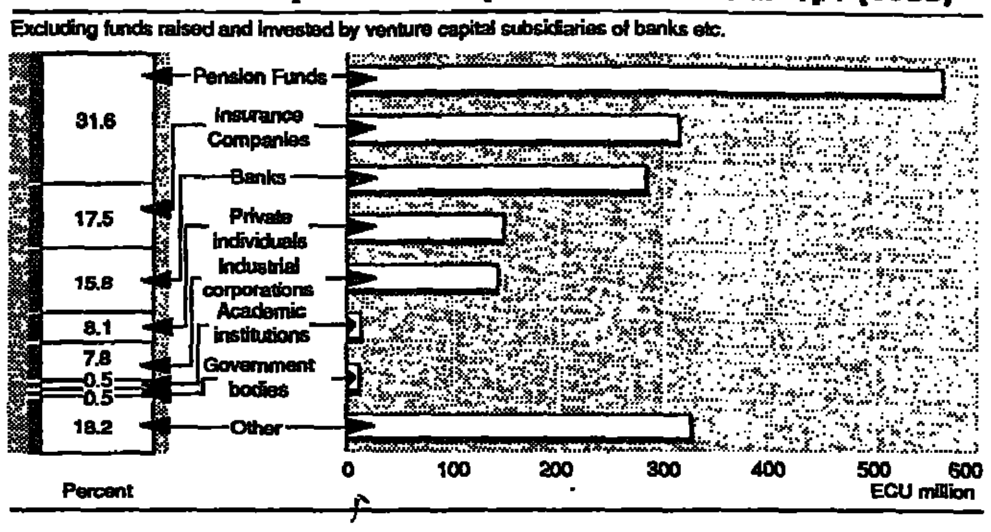
Many of the small businesses which obtain venture capital backing are put in touch with venture funds by financial intermediaries such as accountants, bank managers and management consultants. Accountants, in particular, will often help their clients to prepare business plans to unlock venture finance.

These intermediaries may *simply refer* the entrepreneur to a friendly or affiliated venture capitalist or may try to select a venture capitalist who specialises in the deal which their client is proposing. The task of helping businessmen through the maze of venture capital groups is carried out by venture brokers. The broker, for a fee, will select the most likely backers for a particular proposition.

Ultimately, the entrepreneur's success in raising funds may depend on whether he can get along with the venture capitalist on a personal level. But an early sifting of the different venture capital organisations can eliminate those which are completely unsuitable and may shorten the often long and exhausting search for backing.

Sources of new capital for independent funds in Europe (1988)

Excluding funds raised and invested by venture capital subsidiaries of banks etc.



Source: Venture Economics

■ PROFILE: a large international fund

The art of being approachable

MR PETER Smitham, a partner with Schroder Ventures, *describes the company as holding* the biggest international fund in London – it manages *$1m dollars* worldwide. But *his* biggest concern is "that people think we are unapproachable."

Nevertheless, he is keen to attract more smallish companies – typically with about £5m turnover – to Schroders for funding, particularly with the aim of expanding into continental Europe ahead of the great barrier-raising due in 1992.

His enthusiasm is not born just of a wish to increase his company's *profits*. He is concerned that the smaller UK companies are ignoring the creation of the single European market in the mistaken belief that it will not affect them – and only when other European companies have moved into their markets will they realise what the 1992 fuss was about.

But, he says, they can avoid *that threat* by taking the opportunity to move into the rest of Europe – with Schroder's backing. "We'd love to help them," he says.

The company can claim a little more expertise than others, having just put together an innovative *deal for* AICorp of Massachusetts that allowed the expert systems software company to set up a subsidiary in Europe – without owning it.

Ms Phyllis Swersky, executive vice-president and chief financial officer of AICorp, explains that expert systems – knowledge-based computer programs that try to solve *business problems* using reasoning – are starting to take off.

The company has 50 installations in the US, and several in Europe, including one planning production of Daimler Benz trucks and one at Morgan Stanley International.

Ms Swersky says that the position of businesses asking "What is this stuff?" will soon change to "Which should I buy?"

As *computer* buyers tend not to change suppliers after the first purchase, AICorp was keen to get into the European market before its rivals had chalked up all the customers. So speed was necessary.

However, the obvious route – using independent distributors – did not appeal. "With distributors you can never be sure they *are* truly committed," she says.

The second option – setting *up a subsidiary* – *would be* costly when the company needed to expand and so did not want to take losses on its balance sheet. But the third option – setting up a subsidiary with a venture capital company taking a sizeable chunk of equity – was not satisfactory either, because AICorp did not want to give *away* as much *of* the company as a venture capitalist would have demanded.

Ms Swersky decided that what AICorp wanted was "the best of both worlds – the ability to expand in Europe as if we were a $200m company." She wanted to set up a company in Europe with venture capital, managed by AI staff, that AICorp would have the option to buy back after a few years.

Initially she had trouble getting the backing. "Not guaranteeing to buy it was a major stumbling *block*," *she says*. Several venture capital companys "weren't concerned about doing something so innovative."

Mr Smitham puts it more politely: "They said 'traditionally that's not what we do'."

Schroders agreed to set up AICorp Europe as an independent company of which it would own 91 per cent and AICorp 9 per cent, but AICorp would manage it through a management contract.

Schroders has one board seat. The company also suggested that the director responsible for information technology at the Midland Bank should be appointed as a non-executive director.

Schroders put in an initial $3m, to rise to a maximum of $7m over three years. AICorp gets a *50 per cent royalty* on sales for five years, the time it has to exercise its buy-out option.

If AICorp Europe hits its sales forecasts, the royalties collected will cover the costs of buying the company.

"The price to buy will be higher the better the company does," explains Mr Smitham. "We *sell* it back related *to* turnover."

Should AICorp not buy, royalties will shrink to as little as 5 per cent, Schroders can use the European operation to sell other products, and can sell to another bidder.

If the company is an *early* success, AICorp can buy it early but will pay a high price, *compensating Schroders for its* effort in drawing up the deal and lower return, having only put $3m *into it*.

Schroders can terminate AICorp's management contract should it feel the need, but AICorp then has the right to buy the company at the market price.

The worst situation, says Mr Smitham, is if the company fails just before the deadline. Neither party thinks that likely. AICorp Europe began running in March, and has won several orders.

The company employs 25 people and will have subsid*iaries in the UK, France*, *West* Germany and the Netherlands: the US operation has a work*force of 100*.

One of the biggest problems, according to both parties, was deciding what currency to work in. Even when they hit on the idea of using the European currency unit (Ecu), working out how it varied with the dollar, sterling and the other European currencies was difficult.

Ms Swersky wanted *to get* the deal drawn up in about two months: in the end it took five. "*I learned more about them* [Ecus] than I ever wanted to," she laments.

But she is pleased with the outcome. "Truly so far I have only seen advantages," she says.

Mr Smitham stresses that although it is "smart financial engineering," it was only possible because the company had a good idea and the staff with the right expertise.

"You do not normally find a company of that size with that quality of management. They *had a clear mission of what* they were trying to do."

He also points out that the *deal is not just applicable* to US companies wanting to expand into Europe:

"It is a way of allowing companies to expand without the risk." He is looking forward to several such deals – which he hesitates to call unique, but says he has not heard of before – as Schroders has had about 30 enquiries since the deal was *struck. He says that* "American companies think it's absolutely wonderful."

Although he says it is generally applicable, he does think the experience makes Schroders well-versed in the expansion-into-Europe idea – Ecus and all.

"We have got a will to do it because we understand how to do it – at last."

Elisabeth Tacey

VENTURE CAPITAL 4

Charles Batchelor cuts the jargon with a glossary of terms

A meaningful vocabulary

VENTURE CAPITAL, like many other areas of the financial world, has its jargon. Some of the most exotic terms were imported, along with the technique of venture capital itself, from the US in the late 1970s.

As the UK venture capital community has grown it has developed its own, less colourful vocabulary. Even so, some of the terms will still be unfamiliar to the entrepreneur or businessman dealing with venture capitalists for the first time.

☐ **Bridge finance:** Helps tide a company over until it has raised more venture capital funding or until it obtains a stock market flotation.

☐ **Business Expansion Scheme:** A scheme to encourage investors to engage in risk investment by offering them tax relief at their top marginal rate, for up to £40,000 invested a year.

The 1988 budget introduced a £500,000 annual investment limit for each investee company to channel investment to smaller businesses.

Recent cuts in tax rates have reduced the attractions of the BES for investors while special encouragement for investments in residential property have diverted funds away from non-property ventures.

☐ **Carried Interest:** Shares or an option on shares taken by the venture capitalist in the investee company as part of the financing agreement.

Usually the stake taken is 20 per cent. This is in addition to the annual management fee, normally amounting to 2 per cent of the amount invested, which is charged to the investors.

☐ **Captive funds:** Venture capital organisations which form part of larger financial services groups. Usually they do not raise their own discrete funds but draw on the resources of their parent groups.

☐ **Corporate venturing:** The practice of a large company taking a small equity stake or establishing a joint venture with a smaller business to benefit from the smaller company's specialist expertise.

The large company can provide finance, management back-up and distribution outlets which would not be available to the smaller partner.

The large company brings its innovative skills and allows the big company a ringside view of the new products and technologies it is developing. Corporate venturing links can lead to the bigger partner acquiring the smaller.

Many US and some continental companies have practised this technique though it has failed to appeal to large British companies.

☐ **Deal Flow:** The number of investment propositions which come to the venture capitalist.

☐ **Development Capital:** Later stage venture capital invested after two or three years when the business has become established and needs extra funds for expansion.

Most venture capitalists are in fact providing development capital. The rewards are lower but the risks are correspondingly less than for early stage investments.

☐ **Exit:** The point at which the venture capitalist realises all or part of his investment by either arranging a flotation of the company or, more commonly, selling it to another company or "trade buyer."

A growing range of exits is becoming available and the list includes a refinancing of the company by another group of venture capitalists or the purchase of all the shares by the company's own management.

☐ **Hands on/hands off:** Some venture capitalists take a very close interest in their investee companies and will provide management expertise to help them get started and in times of difficulty.

It is rare to find a venture capitalists who does not claim to be hands on but many, in moments of honesty, will admit to being hands off or passive investors.

☐ **Independent funds:** Do not form part of larger financial groups. They raise their money from institutional and other investors.

☐ **Internal rate of return (IRR):** Different people calculate this in different ways but it basically means the annual rate of return to the investor. It includes dividend distributions and profits from disposals or the profits shown on a fair valuation of an investee company.

Inevitably venture capitalists differ over when investments should be written down, up or off so the figures are rarely strictly comparable. Most venture capitalists set themselves a target IRR of 30 to 40 per cent on their portfolios.

☐ **Living dead:** A portfolio company which is just about trading profitably but which shows little sign of ever meeting the venture capitalist's early high expectations.

☐ **Lemons and Plums:** Bad investments invariably go wrong before the good ones produce the profits. The lemons usually ripen before the plums.

☐ **Refinancing:** Can be a sign of either failure or success. If a company performs poorly it may an extra injection of funds.

Equally, if it does very well, the management may decide to refinance the business on terms more favourable to themselves with their original venture capital backers or sometimes a new team of financiers.

☐ **Management buy-in:** The purchase of a business by an outside manager or team of managers with the help of a group of financial backers.

☐ **Management buy-out:** The purchase of a business by its existing management with the help of a group of financial backers. Buy-outs are funded largely by loans secured on the assets of the company itself.

Most of the equity comes from the venture capitalist or other financial backer.

The management puts up a small amount of finance for a disproportionately large percentage of the equity.

☐ **Replacement capital:** Funds provided to allow an existing shareholder to sell some or all of his shares.

☐ **Second-round financing:** Venture capitalists rarely expect the first injection of funds to meet businesses needs.

A second or even a third round of funding will almost certainly be needed later as the business grows or unforseen problems arise.

At this stage the original venture capital investor may reduce his holding and bring in others to spread the risk.

☐ **Seed Capital:** Usually quite small amounts of capital provided to turn a good idea into a marketable product or service.

The riskiest form of venture capital since the concept, the technology, the entrepreneur and the market are frequently untried.

☐ **Star:** An investment which is so successful that it pays for all the failures and humdrum performers in the venture capitalist's portfolio.

☐ **Trade sale:** The sale of a company to a corporate buyer. This is the most common exit route for venture capital backed companies.

☐ **Venture capital:** Equity finance provided usually to young, unquoted businesses to enable them to get started or to expand.

Equity funds provide a basis for the company to raise further bank finance and provide a cheap source of funds in the early stages of the business because dividends can be delayed until the company starts making profits.

Venture capitalists often argue that they bring not only money but also management and industrial expertise to their investee companies however, see Hands On (above).

■ PROFILE: a high technology investment

Teaming up with the experts

IF WINNING the approval of at least five First Division football clubs ever becomes a requirement for venture capital investment then Beam Tech will still qualify for funds.

The company was set up 18 months ago to develop, manufacture and market medical and biotechnology products. It has scored its first success with a high-technology wound dressing.

Apart from being used at the Wimbledon tennis championships, the product – which allows damaged tissue to breathe, and heal without scarring – has so far dressed the wounds of the players at Liverpool, Everton, Manchester City, Manchester United and Tottenham Hotspur football clubs.

More importantly Beam Tech says the dressing has been tried out successfully on patients who have undergone hand surgery or suffered severe burns.

Dr Gilding: low profile until product was developed

Beam Tech, based near Chester, is poised to sign agreements to distribute its products in Europe and will launch the dressing formally at the Royal Society of Medicine in December.

Dr Keith Gilding, founder and managing director of the company, is modest about Beam Tech's achievements: "I don't believe in hyping products. Basically, we have kept a low profile until the first product has been developed."

Lazard Medical Fund – part of Lazard Brothers' subsidiary, Development Capital Group (DCG) – spotted the potential of Dr Gilding's brainchild a little earlier.

The specialist fund, one of several operated by DCG, injected £900,000 of venture capital into the business in April 1988.

Some of the initial investment was drawn from two general Lazard venture capital funds and a variety of Department of Trade and Industry grants added £260,000 to Dr Gilding's personal investment of £100,000.

The fund has continued to support Beam Tech, as it has grown. By Christmas the company will have added another 13,500 sq ft of manufacturing space to the initial 6,500 sq ft office, laboratory and manufacturing facility opened 18 months ago.

DCG's criteria for investment do not yet include a footballing connection, but according to Mr Charles Cox, the director responsible for the specialist funds, the venture capital company's goal is simple.

"We're looking for a management team that has spotted a market opportunity and has the experience and skills to exploit it," he says.

The product — which allows damaged tissue to breathe, and heal without scarring — has dressed the wounds of players at Liverpool, Everton and Tottenham Hotspur football clubs

"That's a very general statement, but it rules out a lot of the companies we look at: they may have a wonderful product without a management team; or a wonderful management team but no market for the product."

Dr Gilding's own career seemed to give him the management and research experience necessary to convince DCG.

It has encompassed training as a polymer chemist – hence Beam Tech's development of the polymer membranes out of which the wound dressings are made – a Masters in Business Administration (MBA) from the US and several years' experience working on chemical and medical projects within larger businesses or as the head of a small US heart-valve company.

When he returned to the UK in 1987, having sold his equity stake in the heart-valve business, Dr Gilding registered Beam Tech as a company and looked for backers.

"Lazard Medical Fund offered two specific advantages: Lazards have an international reputation and we wanted to work with a high-quality house for credibility; and it was a new fund specialising in medical ventures," says Dr Gilding.

DCG developed the specialist funds to help concentrate the £130m it has under management on the most appropriate opportunities.

"We decided some time ago that there was room to construct funds that focus on particular market areas," says Mr Cox.

When it came to picking the best ideas from the host of venture capital opportunities available to the fund, instead of bringing in consultants, relying on the group's own experience, or hiring experts, DCG decided to offer specialists an active role in the management of the funds.

"We like to team up with people who are experts in the field. They come and work with us – contributing expertise in management of the fund and sharing in the proceeds of the fund," says Mr Cox.

In the case of the medical fund, which has £3m to invest in the sector, it is Mr David Breeze, with a background in healthcare industry, who provides the specialist advice and alternates with Mr Cox as the fund's representative on the board of Beam Tech.

Mr Cox admits that the decision to invest in a high technology company was unusual for the venture capital fund, but he was and still is excited by the future of Beam Tech.

"We're not normally a high-tech investor, but this seemed to have all the right attributes," he says.

If Mr Cox's optimism is not misplaced, Beam Tech should be able to expand its polymer membrane technology from the basic wound dressing product.

Within a few years Dr Gilding believes Beam Tech membranes could be used in plastic or cardio-vascular surgery.

"This technology is capable of being applied over and over again – wound dressing is just the first business," he says.

Andrew Hill

Regional companies are coming of age

Centre of gravity shifts

NORTHERN Investors, one of the first regionally based venture capital funds set up in the UK, is to apply to the Stock Exchange to be quoted as a listed investment trust from April. Thus will regional venture capital in Britain start to come of age.

The business is based in Newcastle-upon-Tyne and has been actively supported by the area's private sector leaders since its formation in 1984. Shareholders include many leading national pension funds, financial institutions and public companies.

It has announced another record year, with a trebling of operating surplus to £340,000. It is fully invested, with £5.8m in 32 companies. Investment income was up from £235,000 to £380,000, maintaining an annual growth rate of 60 per cent from 1985.

Dividend was 8p (11p) with 5p coming from the sale of the company's investment in Pentagon Chemicals of Workington. The real state of progress shows in net asset value per share, which rose 11.5 per cent to 268.7p this year.

However, there seems no urge for the fund's backers to realise the value of their shareholdings. The reason for floating seems straightforwardly pragmatic. As a listed investment trust shareholders will avoid any capital gains tax to which they might be liable if the business stayed private.

Thus, the flotation will be an introduction, meaning that no new shares will be on offer, but existing ones will be on public sale.

To prepare the way for flotation Northern Investors will slim down its board from 13 to seven. Mr Paul Nicholson, head of the Vaux brewing group, will hand over the chair to Mr Robert Dickinson, senior partner of Dickinson Dees, a Newcastle solicitors.

The business will continue to be run by Northern Venture Managers (NVM), which is headed by Mr Michael Denny, another board member.

Mr Denny founded Northern Investors with Mr Nicholson and is a leading figure in the development of regional sources of venture capital in Britain. NVM this year raised a £15.8m fund to operate more widely in the north, Midlands and Scotland than Northern Investors.

About £4m of this has been invested in seven companies and Mr Denny thinks it will not take long for the fund to become fully invested. "It's going like a rocket," he says.

"We have been quite surprised at how well things have been holding up in the present climate. Very little garbage is coming in. Indeed, solid investments are just walking through the door. We had 27 business plans in during October of which at least two are do-able deals."

Yet five years ago Mr Denny's was still a voice in the wilderness. Britain had a severe problem regarding venture capital supply: nearly all funds were headquartered in London and most deals were done in the south-east by both volume and value.

In the regions, Investors in Industry (3i), dominated supply with its network of regional offices and the mix involved with most of its deals was much more towards gearing than equity.

There was iniquity in the concentration of funds in London. Many were backed by pension funds which were themselves the main repositories of Midlands or northern savings. At a time when a north-south divide was emerging, regional money was going to London funds which most of their deals locally and made the division worse.

The situation today bears little resemblance to then. As the table shows, there are now at least 33 sources of venture capital actually based in the regions.

The list is not comprehensive: some fund managers run several funds, as does Mr Denny, or Mr Barry Anysz, the head of Capital for Companies in Leeds. Others have pump-priming funds advancing small amounts of equity – as low as £20,000 – for tiny businesses they hope will graduate to bigger sums from their bigger funds later.

Also excluded are specifically local funds which do not yet operate regionally. St Helens has had a business expansion syndicate for five years; Doncaster's enterprise agency has established a fund; public and private sectors in Sheffield have united to form Hallamshire Investments.

Strong public support has seen ordinary people buying shares put on special offer by these local funds. Lancashire Enterprises, formerly a subsidiary of the county council now forced into the private sector by new restrictions on trading by local authorities, has had a good response to making some of its shares available to general subscription.

At the same time, national funds and institutions have strengthened and extended their regional activity.

For example, 3i in the north-west did £16m of deals in 1987-88, £22m in 1988-89 and should be up to £30m this year. It has 14 investment managers split between Manchester and Liverpool dealing with an application a day.

The Development Capital Group – which set up a series of regional funds in the mid-1980s under Lazards' colours – has backed several promising ventures and is benefiting from early learning.

County NatWest is well-established in cities such as Manchester and Leeds, and Lloyds Merchant Bank has recruited County's Leeds manager to run a new operation there.

Hambros Advanced Technology Trust opened its northern branch in Halifax two years ago and has nearly £2m invested in six promising companies along the Humberside Liverpool axis of the M62, one in Teesside and one in Glasgow.

Newcomers include Mr Peter Folkman, who left 3i in Manchester to set up North of England Venture Managers and Mr Paul Gilmartin, Sheffield's 3i director, who runs Yorkshire Venture Capital.

"We raised £20m from more 30 investors and the deal flow has proved fantastic," Mr Folkman says. He soon found himself expanding his workforce. "I wish I had done this five years ago," he adds.

The latest newcomer has real pedigree as a big league entrepreneur. He is Mr Tony Gartland, who built FKI, the Yorkshire engineering group, until it could take over Babcock. He has stepped back to develop a new career with two of his senior managers by forming Gartland and Whalley securities. It has a £15m fund and the company will use their industrial experience to inject know-how as well as money into their investments.

These skills may well be in great demand. "There has been a change in the type of deals coming forward in the last three months," says Mr Richard Marshall, of Manchester's March Investment Fund.

"We are all looking at a lot of financial reconstruction packages for overgeared companies. Companies wanting more overdraft from their banks are not only having applications turned down but they are having existing overdrafts called in or facilities reduced," he adds.

Many such deals may be very worthwhile for regional funds. They are being asked, in effect, to pay off or reduce loans in exchange for equity in businesses that have already proved themselves.

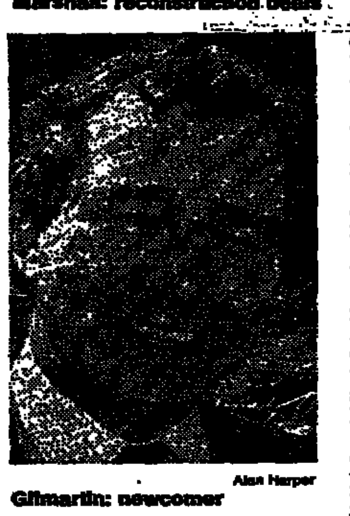
The March funds – which total £25m from the British Gas pension fund – are already 60 per cent invested but there is still £10m to go. "It's been a very brisk first half to 1989," Mr Marshall says. "We have done £5m so far this year and it would have been more if we'd had more staff."

All of which represents a sea change from five years ago, when entrepreneurs north of Watford struggled for equity finance from less regionally attuned fund managers in London.

With the downturn in the south-east, the boot may well be on the other foot, with London funds hoping that the developing regional venture capital industry will give them some crumbs. Competitors all, regional venture capitalists will rejoice inwardly at the irony.

Ian Hamilton Fazey

Marshall: reconstruction deals



Alan Harper

Gilmartin: newcomer

PRINCIPAL FUNDS BASED IN UK REGIONS

FUND HEADQUARTERS	CONTACT	TELEPHONE
ABERDEEN		
Aberdeen Fund Managers	A.A.Laing	0224-631 999
BARNSLEY		
South Yorkshire Developments	J.Hattersley	0226-298 311
BIRMINGHAM		
Birmingham Technology	T.F.C.Crawley	021-359 0981
Centreway Development Capital	D.Chapman	021-643 3941
Mercia Fund Managers	J.Newton	021-233 3404
Summit Equity Ventures	J.M.B.L.Kerr	021-200 2244
West Midlands Enterprise Board	P.G.Collings	021-236 8855
BRISTOL		
Darlington and Company Securities	S.Watson	0272-213 206
CAMBRIDGE		
Cambridge Capital Management	G.Montgomery	0223-312 856
Prelude Technology Investments	R.Hook	0223-423 132
CARDIFF		
Welsh Development Agency	S.C.White	0222-222 666
EDINBURGH		
Hodgson Martin	A.Hodgson	031-226 7644
Ivory & Sime	R.Muir-Simpson	031-225 1357
Quayle Munro	R.W.L.Leggett	031-226 4421
GLASGOW		
Murray Johnstone	I.W.P.Tulloch	041-226 3131
Scottish Development Agency	J.Tait	041-248 2700
HALIFAX		
Gartland and Whalley Securities	J.E.Barker	0422-349 401
HARROGATE		
Belmont Securities	T.R.Cottier	0423-525 661
LEEDS		
Capital for Companies	B.Anysz	0532-438 043
Yorkshire Enterprise	P.Claydon	0532-420 505
York Trust	N.Balfour	0532-460 132
LIVERPOOL		
CLM Unit Trust	K.Abbott	051-236 0221
MANCHESTER		
Edington	G.D.Edwards	061-834 2535
Greater Manchester Economic Dev	I.Bolton	061-236 4412
March Investment Fund	R.S.Marshall	061-872 3676
Mynshul Bank	R.Hoyle	061-236 8897
North of England Venture Managers	P.Folkman	061-236 6600
North West Regional Fund	C.Edwards	061-834 2332
NEWCASTLE-UPON-TYNE		
Northern Venture Managers	M.Denny	091-232 7068
NOTTINGHAMSHIRE		
British Coal Enterprise	A.Hewitt	0773-531 313
PRESTON		
Lancashire Enterprises	R.Bamford	0772-735 821
SHEFFIELD		
British Steel (Industry)	V.Smith	0742-700 933
Yorkshire Venture Capital	P.Gilmartin	0742-722 272
ST HELENS		
Rainford Venture Capital	D.Johnstone	0744-37 227

Sources: Northern Venture Managers, March Investment Fund & British Venture Capital Association

After a lively start, the US industry has become depressed, reports Karen Zagor

Lower returns end quick-buck party

THE US venture capital industry, which entered the 1980s with a bang, is in danger of leaving the decade with a whimper.

Over the last ten years, the industry has been hammered by both the stock market crash of 1987 and by the weight of its own success.

The figures speak for themselves. The pool of money under management, which grew from \$12.1bn in 1983 to \$31bn last year, is expected to be essentially unchanged this year, according to Venture Economics, the industry's research group and think-tank.

The capital raised by venture capital funds in this period has fallen sharply, to \$2.9bn in 1988, in the wake Black Monday, from \$4.5bn in 1983 and a peak of \$4.9bn in 1987. At the same time, the number of venture capital funds in the US has grown from 448 in 1983 to 658 in 1988.

According to Mr Stanley Prattz, a general partner at Abbott Capital Management, an intermediary company which selects venture capital and leveraged buy-out funds for investor clients, venture capital expanded too quickly in the US under the misconception that it was a foolproof way of making a lot of money.

"If venture capital were easy we wouldn't need venture capitalists," said Mr Prattz.

Pension funds and institutions were attracted to venture capital in the early 1980s by the perception that the rates of return were exceptionally high.

"Before the 1980s, pension fund managers were as likely to invest in a brothel as venture capital," said Mr Wilder Fulford, a venture capitalist and associate with James Wolfensohn, the investment banking firm.

The two years between 1978 and 1980 "was a perfect environment," said Ms Linda Vincent, a vice president at Venture Economics.

"Funds started in the late 1970s bought low, sold high and cashed out early. This was ideal, because they were able to liquidate very quickly because of the highly unusual environment," she added.

One reason for the unique conditions during that period was the lift given to venture capital in 1978, when a ruling from the US Labor Department declared venture capital pools "prudent" investments for pension funds.

This coincided with the start of the stock market rise. Investors were encouraged when a number of young companies launched with venture capital, such as Tandem Computers and Apple Computer, went public and prospered.

The rate of return for those funds started in the late 1970s and early 1980s, 73 according to Ms Vincent, ranged from 5 per cent to more than 50 per cent.

However, rates of return have now fallen back to more normal levels of minus 10 per cent to over 20 per cent compounded per annum.

As returns dropped, the perception of venture capital as an easy way to make a quick buck was dispelled and investors became wary of pumping more money into the sector.

The fiasco of the Winchester Disks is often cited as an example of what went wrong with venture capital in the US in the 1980s.

It became obvious early in the decade that Winchester discs, the popular 5¼ inch discs which are used widely in computer software, was a rapidly growing industry.

"There was a feeding frenzy," said Mr Prattz. More than 40 professional investors started some 40 disc-making companies. About \$6bn was used to chase \$1bn, leaving not enough profits to go around.

When IBM cut back its orders for Winchester discs in 1985, the result was disastrous for many of the fledgling companies and many investors were shaken badly.

Diversification of investments is seen as critical for the health of the industry. Computer hardware and systems accounted for 13 per cent of investments in 1988 and 1987, compared with 33 per cent in 1983, according to Venture Economics.

However, this remains the largest single category, equalled only by consumer related businesses. Energy-related ventures was the smallest group last year, at 0.5 per cent.

The accepted wisdom is that there is still room for investment in all areas.

Mr Clinton Harris, vice president of Advent International, the world's largest international venture capital network, said Abbott made money in computers during the decline.

"We've been one of the aberrations," he said. "Our strategy is to stick to our basics – and that is high tech. To make money you don't want to go with the thundering herd," he added.

According to Mr Harris, the dry up of new capital has made it difficult for the new venture capital companies to get funded and may result in some smaller companies withering away.

"In some ways the environment is the worst of two worlds," said Mr Harris. "There is still too much money available to be invested, which bids up prices for the companies we want to buy, while sell side prices are down because stock prices are down."

Competition on the buy side has slackened, which is good for people with money to invest, but there has been no change on the sell side, he added.

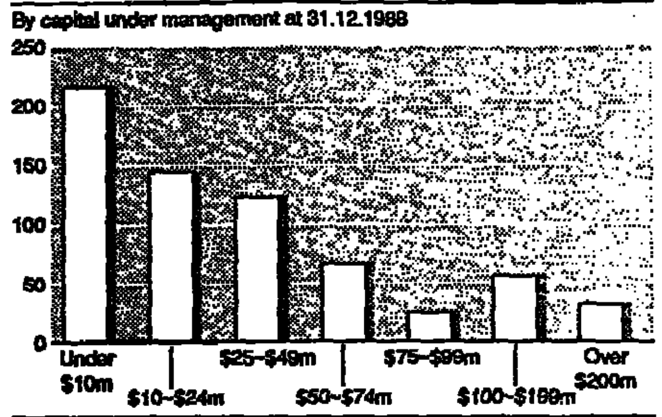
However, there are some advantages to a shrinking industry, particularly for established players.

"We may return to the days when venture capital was a nice little club, almost a price-fixing cartel, with gentlemen's agreements not to eat each other's lunch," said one investor.

"As long as there are still bright people starting companies in need of funds, there will be venture capitalists making profits," he added.

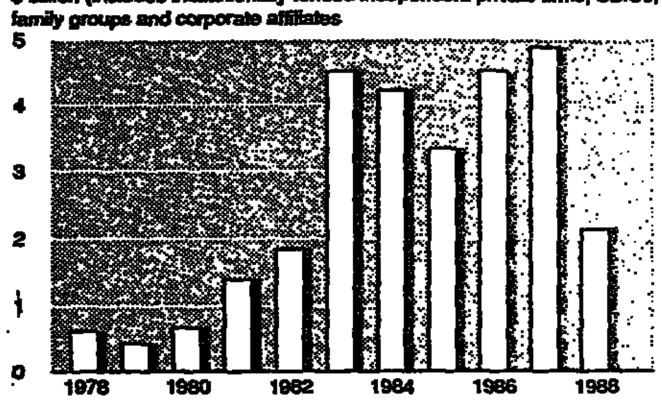
US venture capital firms

By capital under management at 31.12.1988



Net new capital committed to venture capital funds in the US

\$ billion (includes institutionally funded independent private firms, SBICs, family groups and corporate affiliates



MANAGEMENT BUY-OUTS

Interest rate doubts

MANAGEMENT buy-outs have been defying gravity for so long that investors are finding it hard to believe that they have hit the ground. For the past few years buy-outs have flouted one of the basic principles of investment – that the risk rises in line with the return – by managing to combine low risks with high returns.

Over the past few months however the sharp rise in interest rates to 15 per cent has begun to take the gloss off a growing number of deals and the risks of buy-out investments have become more apparent. The problems have been most obvious in the retail sector but this has made investors, in particular the banks, cautious about backing buy-outs in general.

The ever-resilient venture capital industry and the specialist buy-out funds are looking for new opportunities. The diminished attractiveness of buy-outs mean that deals can be more attractively priced for the investors. In addition, the industry believes that an economic downturn will put pressure on companies to dispose of marginally profitable and non-core businesses by means of buy-outs.

Many venture capitalists expect to devote more attention to earlier stage deals as well as buy-ins and corporate restructurings. All require more involvement on the part of the investor.

"Buy-outs have been a bull market phenomenon," says Mr Ronald Cohen, chairman of Alan Patricof Associates, the broadly-based venture capitalist company. "Over the next few years venture capitalists will have to focus on being more hands-on, backing start-ups and early stage companies at one end of the spectrum and buy-ins and restructurings at the other."

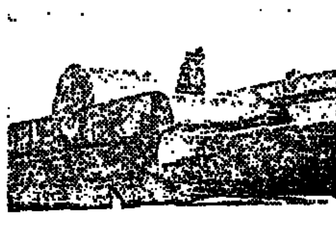
This year is expected to show only a slight increase in the number of buy-outs completed compared. In 1988 they represented 57 per cent of the £1.4bn-worth of the investments and 21 per cent of the number of deals completed by the 107 members of the British Venture Capital Association.

Start-ups and other early stage investments, by contrast, accounted for just 10 per cent of investments by value and for 26 per cent by number.

In Europe buy-outs accounted for 39 per cent of all investments, which were valued at Ecu 3.5bn (£2.4bn) in 1988, compared with just 13 per cent for seed and start-up investments, according to the European Venture Capital Association.

In Britain confidence in buy-outs was badly shaken last summer by the news that MFI and Lowndes Queensway, two large home furnishings retailers, had been forced to defer loan repayments and refinance themselves by rights issues.

The £629m buy-out of Magnet, a kitchen furniture retailer, also ran into difficulties when the lead banker, Bankers Trust, had to halt syndication of the loan finance. In



The £2.4bn buy-out of Gateway owed more to City expertise. Cohen (below): buy-outs are for bull markets

October the Magnet deal ran into further problems when the company started discussions about a financial restructuring with its bankers.

The investors can console themselves that the problems of these companies result from the impact of high interest rates on consumer demand rather than directly from the fact that the companies are over-borrowed. Most buy-outs involve arrangements to cap for several years the amount of interest which is payable but if rates stay high for very much longer interest charges will then rise sharply.

Compared with the US the gearing levels of UK buy-outs are low but they have been rising sharply, according to a recent survey by accountants Peat Marwick McLintock.

In 1981 the banks lent an average of just £50 for every £100 of buy-out equity. By 1989 loans had risen to £530 for every £100 of equity – a tenfold increase. This rise is partly explained by the fact that in 1981 buy-outs were still a fairly unfamiliar concept and buy-out companies tended to be loss-making operations which large companies were keen to be rid of. Buy-outs now tend to be profitable businesses which do not fit into the parent company's core activities.

The profitability of buy-out investments has encouraged the banks to be more generous in their lending although gearing in the UK still remains far more conservative than in the US – where ratios of nine or 10 to one are common.

As if the financial difficulties of a small number of deals were not enough, a study of management buy-outs published earlier this month threw doubts on the economic value of buy-outs in general.

The study, by Warwick Business School, claimed that, while buy-out companies perform better than other companies in their sector for the first three years, from year four they perform worse than average. Buy-outs have usually exhausted opportunities to cut costs and improve margins after the first three years and appear to need a change of ownership structure to maintain their momentum.

The about-turn in buy-out sentiment in recent months may serve to reverse the trend towards large-scale deals which rely on financial engineering rather than traditional venture capital skills. Some recent buy-outs, such as the record-breaking £2.4bn purchase of Gateway, the food and supermarkets group, have owed more to the mergers and acquisitions expertise of City corporate finance teams than to the venture capitalists industrial skills.

The venture industry expects that buy-out teams will set greater store by the traditional venture capital approach. This involves the venture capitalist taking an active interest in the investee company. By contrast, the financier is interested only in doing the deal and expects to have no long-term involvement with the buy-out.

It has been the "big ticket," high-profile buy-outs, often of publicly-listed companies, which have attracted most press and public attention in recent months. But venture capitalists are keen to point out that a large number of smaller, less spectacular deals have continued to be done and remain the bread and butter of the venture capital industry.

An estimated 300 deals were completed in the first nine months of 1989 compared with 400 in the whole of 1988, according to accountants Peat Marwick McLintock. The value of deals carried out in the first nine months of 1989 was £5.4bn compared with £5bn in the 12 months of 1988 though the annual figures are distorted by a small number of very large transactions.

The smaller buy-outs of about £10m-£15m are no less demanding in terms of the venture capitalist's time and skills than the start-up, according to Mr Tony Lorenz, chief executive of ECI Ventures. The smaller deals involve a combination of financial and industrial expertise and require the venture capitalist to become as closely involved in the day-to-day affairs of the company as does a start-up.

The easy years may be over for the management buy-out community but the role of the buy-out as an essential tool for the restructuring of industry remains undisputed.

Charles Batchelor

UK's leading venture funds

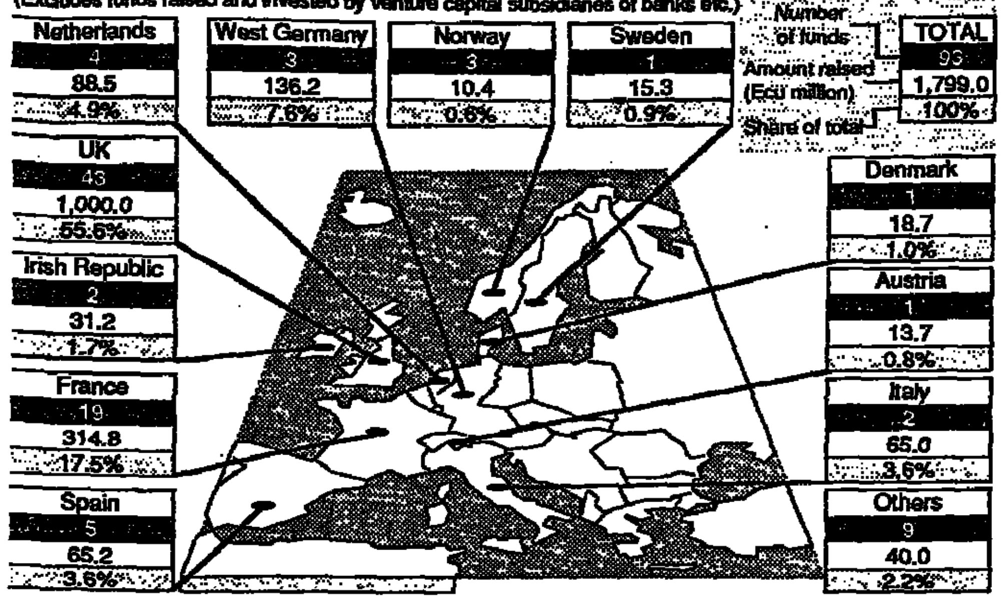
Peat Marwick McLintock - Venture Capital Database

	Range of individual investments considered Minimum (£000's)	Maximum (£000's)	Start-ups	Development	Replacement	Man buy-out/in	Rescue	Telephone	Sector Preference
3i PLC	0	OPEN	Y	Y	Y	Y	Y	01 928 7822	O
ABERDEEN FUND MANAGERS LIMITED	50	500	P	Y	Y	Y	P	0224 631999	O
ABINGWORTH PLC	250	2,000	Y	Y	Y	Y	P	01 839 6745	E,J,C,B,A,D,H
ADVENT LIMITED	300	3,000	Y	Y	P	Y	P	01 630 9811	C,(N)
AIB VENTURE CAPITAL	250	2,000	N	Y	Y	Y	N	01 606 5600	C,(D),(F),K,(N)
ALAN PATRICOF ASSOCIATES LIMITED (APA)	100	7,500	Y	Y	N	Y	Y	01 872 0315	O
ALTA BERKELEY ASSOCIATES	100	1,500	Y	Y	Y	Y	Y	01 734 4584	B,A,E,D
ARAB INTERNATIONAL TRUST CO.LTD	250	2,000	Y	Y	Y	Y	Y	01 434 4141	O
AUDLEY FUND MANAGEMENT	50	OPEN	Y	Y	Y	Y	P	01 625 4545	A
AVON ENTERPRISE FUND PLC	100	250	P	Y	P	Y	N	0272 213203	O,(N)
B & C VENTURES LIMITED	500	15,000	P	Y	Y	Y	P	01 726 4070	O
BAILLIE GIFFORD TECHNOLOGY PLC	100	1,000	Y	Y	N	Y	N	031 225 2581	B,C,J,L,A,F
BANK OF BOSTON	250	2,000	N	Y	Y	Y	N	01 932 2651	O
BANKERS TRUST	250	25,000	N	Y	Y	Y	N	01 726 4141	O,J
BARCLAYS DEVELOPMENT CAPITAL LIMITED	200	OPEN	N	P	Y	Y	P	01 407 2389	H,I,J,K,M
BARING BROTHERS HAMBRECHT & QUIST LIMITED	0	1,500	Y	Y	P	P	P	01 408 0555	O,A,B,C,D
BARING CAPITAL INVESTORS LIMITED	2,000	OPEN	N	Y	Y	Y	N	01 408 1282	O
BARNES THOMSON MANAGEMENT	100	500	P	Y	Y	Y	N	01 487 3870	B,A
BARONSMEAD PLC	200	2,000	P	Y	Y	Y	N	01 242 4900	O,A,B
BIOTECHNOLOGY INVESTMENTS LIMITED	0	3,000	Y	Y	N	N	N	01 280 5000	D,E
BIRMINGHAM TECHNOLOGY VENTURE CAPITAL LIMITED	10	250	Y	Y	P	Y	P	021 359 0981	A,B,D,E,H,K,L,C
BRITISH LINEN BANK LIMITED	70	500	N	Y	Y	Y	Y	031 243 8463	O
BRITISH TECHNOLOGY GROUP	50	OPEN	Y	Y	N	P	N	01 403 6666	O,(H),(M),(N)
BROOKE ALLMAN INTERNATIONAL LIMITED	50	5,000	Y	Y	Y	Y	P	01 530 4268	J,F
BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED	750	3,000	N	Y	Y	Y	N	01 606 9833	O
CAMBRIDGE CAPITAL MANAGEMENT LIMITED	200	700	N	Y	P	Y	P	0223 312856	O
CANDOVER INVESTMENTS PLC	2,000	OPEN	N	Y	P	Y	N	01 583 5090	O,(B),(C),(G)
CAPITAL FOR COMPANIES LIMITED	100	250	P	Y	Y	Y	P	0532 435343	O
CAPITAL PARTNERS INTERNATIONAL LIMITED	5	350	P	Y	Y	Y	P	01 351 4899	O
CAPITAL VENTURES LIMITED	30	20,000	Y	Y	P	Y	N	0242 584380	O
CAPITAL WEST	500	OPEN	N	P	N	Y	N	0272 213206	O
CASTLEFORTH FUND MANAGERS LIMITED	100	300	Y	Y	Y	Y	P	01 490 4113	A,B,C,H
CAUSEWAY CAPITAL LIMITED	400	2,500	Y	Y	Y	Y	P	01 831 3073	O
CENTREWAY DEVELOPMENT CAPITAL LIMITED	100	1,000	Y	Y	Y	Y	P	021 643 3941	A,B,E,G,H,J,L,M,N
CHARTERHOUSE DEVELOPMENT CAPITAL	100	25,000	P	Y	Y	Y	N	01 248 4000	O
CHARTERHOUSE VENTURE FUNDS	300	2,000	Y	Y	Y	Y	N	01 409 3232	A,E,C,F
CHASE INVESTMENT BANK LIMITED	500	OPEN	N	Y	Y	Y	N	01 726 5599	O
CIN VENTURE MANAGERS LIMITED	250	40,000	Y	Y	Y	Y	P	01 245 6911	O
CITICORP VENTURE CAPITAL LIMITED	500	OPEN	N	Y	Y	Y	Y	01 234 2767	O
CLOSE INVESTMENT MANAGEMENT LIMITED	500	5,000	N	Y	Y	Y	Y	01 283 2241	O
CLYDESDALE BANK EQUITY LIMITED	250	OPEN	P	Y	Y	Y	P	041 248 7070	O,(N)
COUNTY NATWEST VENTURES LIMITED	250	OPEN	P	Y	Y	Y	Y	01 382 1000	J,H,O
CYGNUS VENTURE PARTNERS	250	OPEN	Y	Y	Y	Y	Y	0895 72601	O
DEVELOPMENT CAPITAL CORPORATION LIMITED	250	10,000	Y	Y	Y	Y	P	01 491 0767	O,E,F,G,H,M,N
DEVELOPMENT CAPITAL GROUP LIMITED	250	OPEN	Y	Y	Y	Y	Y	01 935 2731	O
ECI VENTURES	500	5,000	Y	Y	Y	Y	Y	01 606 1000	O,(F),(N)
ELECTRA INNVOTEC LIMITED	200	2,000	Y	Y	P	N	N	01 831 9901	A,C,B,I,J,L
ELECTRA KINGSWAY LIMITED	1,000	10,000	P	Y	Y	Y	Y	01 831 6464	O,M,P
EUROCONTINENTAL (MANAGERS) LIMITED	245	2,450	P	Y	P	Y	P	01 638 6111	A,D,M,J
FLEMING VENTURES LIMITED	250	1,000	N	Y	Y	Y	N	01 480 6211	A,B,C
FOREIGN & COLONIAL VENTURES LIMITED	500	5,000	N	Y	Y	Y	Y	01 782 9829	O
GARTMORE INVESTMENT LIMITED	250	2,000	Y	Y	Y	Y	Y	01 623 1212	O
GLOBE MANAGEMENT LIMITED	1,000	25,000	P	Y	Y	Y	Y	01 836 7766	O
GPI	500	OPEN	N	Y	Y	Y	Y	01 222 8151	F,J,N,M
GRANVILLE & CO. LIMITED	200	OPEN	Y	Y	Y	Y	Y	01 488 1212	O
GREATER LONDON ENTERPRISE	5	500	Y	Y	Y	Y	P	01 403 0300	O
GRESHAM TRUST PLC	250	1,000	N	Y	Y	Y	P	01 606 6474	O
GROSVENOR VENTURE MANAGERS LIMITED	200	2,000	N	Y	Y	Y	P	0753 32623	O
GUIDEHOUSE LIMITED	50	1,000	Y	Y	Y	Y	Y	01 628 5858	O
HAMBRO EUROPEAN VENTURES LIMITED	150	3,500	P	Y	P	Y	Y	01 480 5000	O,(B),(C),(D)
HAMBROS ADVANCED TECHNOLOGY TRUST	50	500	Y	Y	P	N	P	01 242 9900	A,C,E,D,B
HIGHLANDS AND ISLANDS DEVELOPMENT BOARD	0	400	Y	Y	N	Y	Y	0463 234171	O,(M),(N)
HILL SAMUEL DEVELOPMENT CAPITAL	500	2,500	P	Y	Y	Y	P	01 628 8011	O
HODGSON MARTIN LIMITED	100	1,000	P	Y	P	Y	P	031 226 7644	O
INDUSTRIAL DEVELOPMENT BOARD FOR NORTHERN IRELAND	0	OPEN	Y	P	N	P	Y	0232 233233	O
IVORY AND SIME DEVELOPMENT CAPITAL	100	10,000	N	Y	Y	Y	Y	031 225 1357	O
JAMES FINLAY BANK LIMITED	50	500	P	Y	P	Y	N	041 204 1321	O,C,D,J,L
JMI ADVISORY SERVICES LIMITED	0	150	Y	Y	N	N	N	01 930 7107	O,A,B,C,D
JOHNSON FRY PLC	200	10,000	P	Y	N	Y	N	01 439 0924	N,E,H
JOHNSTON DEVELOPMENT CAPITAL LIMITED	100	350	P	Y	Y	Y	N	0737 242466	O
KLEINWORT BENSON DEVELOPMENT CAPITAL LIMITED	250	OPEN	P	Y	Y	Y	P	01 623 8000	O
KORDA & COMPANY LIMITED	50	250	Y	N	N	N	N	01 253 5882	E,B,C,D,A
LANCASHIRE ENTERPRISES PLC	50	300	Y	Y	Y	Y	N	0772 203020	O
LARPENT NEWTON & CO. LIMITED	50	750	Y	Y	Y	Y	Y	01 251 9111	O, (H), (N),(M)
LEDU - SMALL BUSINESS AGENCY N. IRELAND	3	450	Y	Y	N	Y	Y	0232 491031	B,C,H,J,E
LEGAL & GENERAL VENTURES	500	OPEN	Y	Y	Y	Y	Y	01 489 1888	O
LLOYDS DEVELOPMENT CAPITAL LIMITED	200	OPEN	N	Y	Y	Y	N	01 248 4275	O
LONDON INVESTMENT CAPITAL GROUP	100	2,500	Y	Y	Y	Y	Y	01 839 7707	O,(D),(F),(H),(N),(P)
LONDON WALL INVESTMENTS	500	OPEN	P	Y	P	Y	Y	01 638 5362	O,(D),(K),
MARCH INVESTMENT FUND	250	1,500	P	Y	Y	Y	P	061 872 3678	O
MERCHANT NAVY INVESTMENT MANAGEMENT LIMITED	250	OPEN	N	Y	P	Y	P	01 588 6000	O
MERCURY ASSET MANAGEMENT	500	OPEN	P	Y	Y	Y	P	01 280 2800	O
MERSEYSIDE ENTERPRISE BOARD	10	300	Y	Y	Y	Y	Y	051 236 0221	J
METROGROUP CAPITAL PLC	50	400	N	Y	Y	Y	Y	01 437 0483	A,H
MIDLAND MONTAGU VENTURES LIMITED	500	OPEN	P	Y	Y	Y	P	01 260 9911	O
MIM DEVELOPMENT CAPITAL LIMITED	250	10,000	P	Y	P	Y	N	01 626 3434	O
MINSTER TRUST LIMITED	100	500	P	Y	Y	Y	N	01 623 1050	O
MORRIS, STEWART-BROWN & CO.	25	OPEN	Y	Y	Y	Y	Y	01 248 2894	O
MTI MANAGERS LIMITED	250	750	Y	Y	N	Y	Y	0923 50244	O,(F),(H),(I)
MURRAY JOHNSTONE LIMITED	250	10,000	Y	Y	Y	Y	N	041 226 3131	O
MYNSHUL VENTURES LIMITED	10	500	Y	Y	Y	Y	Y	061 236 3697	O
NATIONAL WESTMINSTER GROWTH OPTIONS LIMITED	5	500	Y	Y	P	Y	N	01 239 8599	O
NEWMARKET VENTURE CAPITAL PLC	200	1,000	Y	Y	N	P	Y	01 638 2521	C,D,B,E
NOBLE & CO. LIMITED	50	OPEN	Y	Y	Y	Y	P	031 225 9677	O
NOBLE GROSSART INVESTMENTS	100	1,500	Y	Y	Y	Y	Y	031 226 7011	O
NORTH OF ENGLAND VENTURES LIMITED	200	2,000	P	Y	Y	Y	Y	061 236 6600	O,(N)
NORTH WEST REGIONAL FUND LIMITED	50	400	N	Y	Y	Y	N	061 834 2332	O,(D),(G),(N)
NORTHERN IRELAND VENTURE CAPITAL	20	200	Y	Y	Y	Y	Y	0232 230781	O,J,C,N
NORTHERN VENTURE MANAGERS LIMITED	25	OPEN	Y	Y	Y	Y	Y	091 232 7068	O
NORWICH UNION VENTURE CAPITAL LIMITED	100	2,500	Y	Y	Y	Y	N	0603 683803	O,(N),(P)
OAKLAND INVESTMENT MANAGEMENT LIMITED	400	1,000	P	Y	N	Y	N	0488 83555	H,M,J,(N),(P)
OCTAGON INVESTMENT MANAGEMENT	150	750	Y	Y	Y	Y	P	0223 423033	A,B,C,L
OXFORD SEEDCORN CAPITAL LIMITED	10	100	Y	Y	N	N	N	0865 53535	O,(F),(M),(N)
PHILDREW VENTURES	500	100,000	P	Y	Y	Y	P	01 628 6366	O,(F),(N)
PIC CAPITAL GROUP	3,000	100,000	N	N	Y	Y	N	01 283 8122	O
PINE STREET INVESTMENTS LIMITED	500	3,000	Y	Y	Y	Y	N	01 225 3911	P
PIPER INVESTMENT MANAGEMENT	100	1,000	Y	Y	P	Y	P	01 727 3866	M,H
PRELUDE TECHNOLOGY INVESTMENTS LIMITED	20	1,000	Y	Y	N	N	P	0223 423132	O
PRUDENTIAL VENTURE MANAGERS LIMITED	500	20,000	P	Y	Y	Y	P	01 831 7747	O
QUAYLE MUNRO LIMITED	100	1,500	N	Y	Y	Y	P	031 226 4421	F,H,I,J, M
QUESTER CAPITAL MANAGEMENT LIMITED	100	750	Y	Y	Y	Y	Y	01 222 5472	O
ROTHSCHILD VENTURES LIMITED	100	2,500	Y	Y	Y	Y	Y	01 280 5000	O
SCHRODER VENTURES	500	20,000	Y	Y	Y	Y	Y	01 379 5010	E,B, C, H, O
SCIMITAR DEVELOPMENT CAPITAL LIMITED	300	2,500	N	Y	Y	Y	N	01 487 5914	O,(N),(F)
SCOTTISH DEVELOPMENT AGENCY	5	1,000	Y	Y	N	Y	Y	041 248 2700	F,D,J,C
SECURITY PACIFIC/HOARE GOVETT EQUITY VENTURES LTD.	500	OPEN	N	Y	Y	Y	Y	01 374 1798	O,(N),(D)
SEED CAPITAL LIMITED	5	40	Y	N	N	N	Y	0491 579999	J
SMITHDOWN INVESTMENTS LIMITED	25	75	P	Y	P	Y	N	09278 5199	H, M
SOUTH YORKSHIRE DEVELOPMENTS	75	1,000	Y	Y	Y	Y	P	0226 298311	O
STEWART, IVORY & CO. LIMITED	500	2,000	P	Y	Y	Y	P	031 226 3271	O,(G),(N)
SUMIT EQUITY VENTURES LIMITED	150	5,000	P	Y	Y	Y	Y	021 200 2244	J,M,C,O
SUN LIFE INVESTMENT MANAGEMENT SERVICES LIMITED	250	2,000	P	Y	Y	Y	P	01 606 7788	O
THE ST JAMES'S VENTURE CAPITAL FUND LIMITED	100	750	Y	Y	P	Y	P	01 431 4381	B,C
THE YOUNG ENTREPRENEURS FUND LIMITED	25	100	Y	Y	N	Y	N	01 783 1099	O
THOMPSON CLIVE & PARTNERS LIMITED	0	3,000	Y	Y	Y	Y	Y	01 491 4809	O,(F),(G),(K),(M)
TRANSATLANTIC CAPITAL (BIO SCIENCES) LIMITED	50	500	Y	Y	Y	Y	N	01 459 0021	D, E
UBK INFORMATION TECHNOLOGY PARTNERSHIP	50	500	Y	Y	P	P	Y	01 626 3422	O
ULSTER DEVELOPMENT CAPITAL LIMITED	50	300	N	Y	Y	Y	Y	0232 246765	O
ULSTER VENTURE CAPITAL LIMITED	10	250	Y	Y	N	Y	Y	0232 328490	O
VENTURE FOUNDERS LIMITED	100	600	Y	P	N	P	P	0895 824015	A,B,D,E,(N)
VENTURE LINK (INVESTORS) LIMITED	100	1,500	Y	P	P	P	N	01 629 2299	A,B,C,D,E
WELSH DEVELOPMENT AGENCY	3	1.000	Y	Y	P	Y	P	0222 222666	O,(G)
WELSH DEVELOPMENT CAPITAL (MANAGEMENT) LIMITED	100	500	Y	Y	P	Y	P	0222 378531	O
WEST MIDLANDS ENTERPRISE BOARD LIMITED	75	750	P.	Y	P	Y	P	021 236 8855	O,(N),P
YORKSHIRE ENTERPRISE LIMITED	25	1,000	Y	Y	Y	Y	Y	0532 420505	O,(N),(M)
YORKSHIRE FUND MANAGERS LIMITED	250	2,250	N	Y	Y	Y	Y	0532 442585	O

Key: Y = Yes P = Possible N = No Sector Preferences A = Communications B = Computer Related C = Other Electronic Related D = Biotechnology E = Medical, Health F = Energy, Natrual Resources G = Agriculture H = Consumer/Related Products I = Industrial Products K = Space and Aviation Industry L = Industrial Automation M = Wholesale, Trade, Distribution N = Property O = Anything P = Financial Services. Any letter in brackets indicates a preference not to invest in that sector.

New capital raised for independent funds in Europe (1988)

(Excludes funds raised and invested by venture capital subsidiaries of banks etc.)



WEST GERMANY

Fast-maturing market

WHEN financially-strapped Christopher Columbus set out to discover America, he turned to those who had money and were looking to invest it for a risky but potentially high profit: venture capitalists.

So goes the venture capitalists' lore. But whether true or not, the basic idea has remained largely unchanged. A traditional venture capitalist's strategy continues to be the taking of an equity stake in an enterprise, nursing it through growth stages and divesting of it later to realise capital gains.

In West Germany, however, Columbuses are few and far between, complains Mr Thomas Kuehr, chairman of the Deutsche Venture Capital Verband (DVCV), a Berlin-based association of venture capital companies.

He says owners of small and middle-sized (*Mittelstand*) companies are extremely reluctant to give up even a part of their equity in return for a lift in the overall capital and extensive consulting that a venture capitalist usually provides.

The structure of corporate balance sheets in West Germany confirms Mr Kuehr's findings. The Organisation for Economic Co-operation and Development (OECD) says that in 1986 equity capital made up only 19 per cent of the total assets of West German companies. It stood at over 57 per cent in the US and just below 50 per cent in the UK.

One must note however, that US and UK companies count various provisions as part of equity capital. West German company owners prefer borrowing from their traditional sources, such as banks and savings banks, or finance their expansion plans out of cash flow, rather than give up part of their independence.

Such restraint is reflected in a relatively dull venture-capital investment climate in West Germany. According to a study by the European Venture Capital Association, West German venture capitalists invested Ecus 600m in 1987 in their own country. This was well below the Benelux moneymen who shelled out Ecus 1.7bn and the Ecus 3.9bn invested by their UK colleagues.

The venture capital market in West Germany has grown rapidly in the past few years. Almost 70 companies offered funds to German companies in 1988, up from 25 in 1987.

The amount they will invest by the end of 1989 is expected to quadruple to DM2.6bn from DM800m in 1983. Included in these numbers however, are funds provided by German investment companies not in the strict sense of a US-based venture capital company.

Unlike the latter, *Kapitalbeteiligungsgesellschaften* (KBG), or investment capital firms, also provide funds to growing companies. As a rule, they remain their silent partners and prefer less-risky industries.

Such KBGs, which are usually subsidiaries of big banks, hold in a tight grip more than two-thirds of the overall investment capital market.

Some of them, for instance Deutsche Bank's Deutsche Beteiligungsgesellschaft (DBG) and its venture-capital mutual fund Deutschen Beteiligungs (DBAG), fuse venture capital with investment capital and financial engineering activities, and call themselves "universal investment capital firms."

Thus, DBG offers companies, whose equity stakes it holds, all-round services. These range from boosting equity capital of

Company owners prefer borrowing from traditional sources

the target company, usually a small or medium-sized one, to acting as a quasi-supervisory board to provide business consulting, which the company often can't otherwise afford, to helping find suitable acquisition objects or co-operation partners, and finally, taking the company public.

A growing proportion of business comes from mergers and acquisitions, buy-outs, buy-ins and other such activities, unheard-of in West Germany until recently.

DBAG is the only investment-capital mutual fund listed on the West German bourse. Its preferred shares are traded on the Frankfurt stock exchange, while Deutsche Bank owns 82.5 per cent of its common stock and Schmidt Bank holds the rest.

The fund held a portfolio worth DM61m at the end of 1988, while the combined sales volume of the 14 companies it had invested in was approaching DM1bn.

These companies did very well in 1988, boosting DBAG's pre-tax profit by 46 per cent to DM13m from DM8.9m in the previous year.

Still, KBGs aren't as venturesome as true venture capitalists ought to be, even though DBG's president Mr Karl-Heinz Fanselow tries to shift the blame on potential beneficiaries of such investment.

Most KBGs don't touch companies whose turnover is below DM5m. That is precisely the point true-blue venture capitalists try to make.

Mr Kuehr, of the venture-capital association DVCV, says "a towering presence of banks in all corners of the German financing market" makes competition with them difficult.

Borrowing money from a bank appears cheaper than getting capital infusion from a venture capitalist. The former charges maybe 10 per cent interest, the latter could ask for a 20 per cent return.

The true price of money however, is revealed when the borrower stops making profit, insists Mr Hellmut Kirchner, a partner at Matuschka Group, an international investment and venture capital concern.

"Only then it becomes clear that it is cheaper to borrow from a venture-capital company because it assumes the risk of failure, while a bank does not," he explains.

At the same time, Mr Kirchner believes venture-capital companies should be less shy in dropping unsuccessful companies. "So far it isn't a German style," he admits. "The market isn't mature enough."

Indeed, a true venture-capital industry, focused on investing in high-technology, innovative companies, started in this country only about six years ago, says Mr Kirchner.

Then Matuschka and Siemens set up Techno-Venture Management (TVM) fund, joined quickly by several German and non-German banks and companies with the aim of investing in high-tech companies here and in the US.

This year, two funds worth DM346m that TVM manages, have invested about DM170m in companies whose sales start at less than DM1m.

The usual maturity cycle, or the time when the target company becomes ripe for disinvestment, is between five and seven years, says Mr Kirchner.

More than just an idea and a business plan are required to get venture capitalists interested. "We're looking for management expertise, some sort of a record that a guy knows how to manage cash," says Mr Kirchner, who is responsible for venture capital activities at the Matuschka group.

Unfortunately, that is what West German entrepreneurs so often lack. "We are a society that's geared not to marketing but to research and development," he admits.

Seed-money funds provided by local governments are meant for inventors, while WFG Deutsche Gesellschaft für Wagniskapital, the first venture-capital fund set by the federal Government in 1976, provided no management consulting at all.

WFG is administered by Deutsche Bank's DBG, which is much more sophisticated than its predecessor. Several billion marks a year are also given by Bonn to small and middle-sized companies, especially in under-developed areas of West Germany, through the European Recovery Program, a throwback to the Marshall Plan era.

The Bonn government, which gives money with one hand, takes it away with the other. New taxation of net capital gains from a sale of a company, effective in January, will cut into the receipts of many a company owner, who has been planning to retire on the sales proceeds.

The ruling caused a rash of divestments, takeovers and buy-outs. "We've had an unusually active year," notes Mr Kirchner. In spite of such headaches, the venture-capital industry is poised to make a leap, triggered by a slowly congealing pan-European market and a suddenly opening eastern Europe.

"In East Germany alone, the market potential for us is enormous," he says excitedly. "And we could certainly use that country as a springboard to the East: they have so many people who can speak Russian."

Igor Reichlin

The Japanese industry has always been conservative, reports **Michiyo Nakamoto**

Lower returns in land of the cautious

THERE IS no Japanese dream, like the great American dream, remarked a Japanese venture capitalist, summing up the prevailing Japanese attitude towards the business of financing a new and untested vision.

Venture capitalism in Japan has always been a rather dull, conservative affair, not so much concerned with the flowering of an individual dream as with the extended growth prospects of already fairly stable companies.

"Only about 10 per cent of our investments is in start-up companies," says an official at Japan Associated Finance (*Jafco*), the industry leader affiliated with Nomura Securities.

The conservatism stems mainly from the fundamentally different aims Japanese venture capital companies have from their western counterparts.

Although there are over 93 venture capital companies in Japan, the majority are subsidiaries of the country's great banks and securities firms. Their business is concerned mainly with listing the company investee and winning a part in managing the eventual public offering of the venture's shares.

While venture capital companies affiliated with banks also offer the banks prospective loan contracts, their real value for the banks lies in their link to the equity market where companies have increasingly turned for funding.

The liberalisation of the over-the-counter (OTC) market in 1983 has encouraged more smaller companies to go public, thereby increasing demand for Japanese-style venture capital funding which is actually a program of assistance in preparing for a public offering.

"Interest in going public has grown substantially," said an official at Fujigin Capital, affiliated with Fuji Bank, the large commercial bank. "Our business has grown with it, since our business is to help companies raise funds publicly," he added.

This year 44 companies have registered with the OTC market and an additional 30 are expected to go public through the OTC by the end of the year.

The OTC market, although still miniscule in comparison to the US National Association of Securities Dealers' Automated Quotations (NASDAQ) which trades 4,500 issues, hopes by next year to at least be on a comparable scale to the second section of the Tokyo stock exchange where 434 issues are traded.

Japanese venture capitalists are reluctant to make the commitment unless they can be fairly certain that their investment, over an extended period, will eventually pay off

The market, and venture capital investment, is likely to expand when trading on the OTC market is automated in 1991.

It takes much longer for a company to register on the OTC market in Japan than on similar markets overseas. Less than 1 per cent of companies listed on the OTC market are under 10 years old.

Japanese venture capitalists are reluctant to make the commitment unless they can be fairly certain that their investment over this extended period will eventually pay off.

Jafco, however, aims for an average 4½ to 5 years from the time it starts working with a company until the initial public offering.

"We are actually closer to an investment firm than to a venture capital company," concedes an official at a large company. Given this kind of caution then, it is not surprising that none of the companies it has invested in in the past few years has faced bankruptcy.

Jafco has not had any of its recent investees go under, and even taking into account the depression years of 1985 and 1986 when many venture businesses collapsed under the pressure of a highly appreciated yen, the bankruptcy rate has been less than 5 per cent.

The careful screening that is conducted before a company is taken on gives Jafco and other large venture capital companies the liberty to retain a more or less hands-off attitude towards their investee companies.

Here, Japanese venture capitalists again differ widely from their US counterparts which tend to take a more active role in the actual management of the companies they invest in.

Some companies argue that involvement in one company could restrict other activities. Jafco says it has not had to take an active role in running the companies it invests in since it places high importance on the company's business plans and the strength of its management in making its investment decisions.

The experience in the years of the rising yen taught Japanese venture capitalists a bitter lesson that has guided their policies ever since.

In the words of one venture capitalist: "It is not enough for a technician to have a dream, he must have strong management too."

With Japan's strong economy there is no shortage of opportunities for investment.

Larger venture capital companies tend to concentrate on maximising gains by enlarging their share of the market, rather than through carefully nurturing a smaller number of companies with greater risk.

There is a legal barrier to active involvement by a venture capital company in its investee. Under rules established by Japan's anti-monopoly regulator, the Fair Trade Commission, venture capital companies are prohibited from sending executives to their investees.

This cautious approach has meant that venture capital has been a far less risky business than in other countries but it has also meant lower returns. The rate of return of Japanese venture capital funds has tended to be about forty per cent lower than that of US funds but few venture capitalists seem to be bothered by this.

"We offer higher returns than many other investment instruments and interest from abroad is also growing," says one venture capitalist confidently.

In the past few years, intense competition in the financial industry has prompted banks to conspicuously step up their venture capital businesses as a means to bring more corporate clients under their wing.

Since the securities and banking businesses are separated by law in Japan, the banks face losing their clients to the securities industry as companies increasingly turn to the equity market for funding, unless they can offer similar services through such affiliates.

The move overseas of the big Japanese companies is leading an increasing number of small companies to seriously consider the possibility of expanding into foreign markets at an early stage.

Foreign venture capital companies that are affiliated with securities firms have been able to benefit from this emerging trend among companies going public to seek a participating foreign underwriter which could help facilitate activities abroad.

In 1987, Jardine Fleming became the first foreign company to help manage a listing of a Japanese company on the OTC market when it participated in the initial public offering of Jafco.

Jardine Fleming has also participated in the public offering of three other Japanese companies.

Mr Nobuo Matsuki, president of Schroders PTV, a joint venture between the British merchant bank and a Japanese venture capital company, says that the international network offered by the Schroders link has been a big advantage in attracting business to the company in Japan.

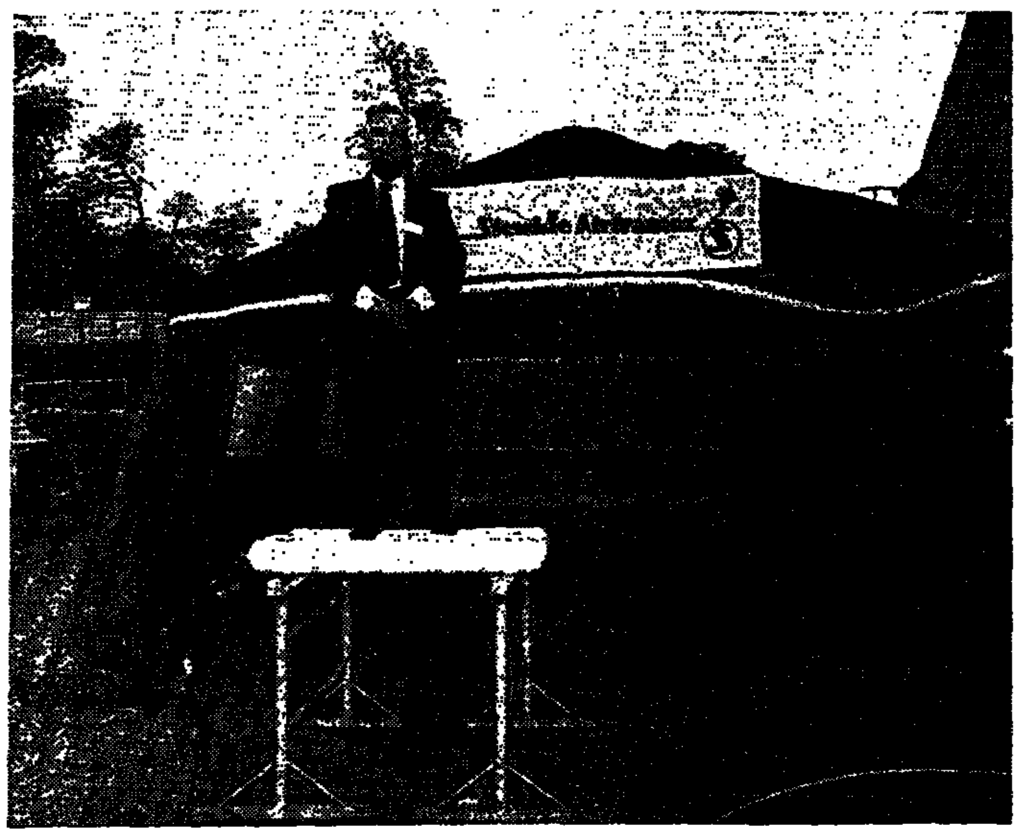
For the foreigners, the return on investment still remains the main goal.

Jardine Fleming has invested in over 100 venture businesses of which it has participated in the public offering of only one.

As one venture capitalist affiliated with a foreign securities firm says: "We are in it for the returns and the underwriting business is only an end result."

■ PROFILE: the small entrepreneur

Funding for the oddballs



Air strength: Keith Stewart astride his airframe which got the JMI treatment

THREE YEARS ago Mr Keith Stewart was in the classic position of the frustrated inventor. Working from his Dorset home, he had dozens of ideas for civilian and military applications of the inflatable technology which had had been developing for years.

What Mr Stewart lacked was any idea of how to raise the capital which would allow him to turn his dreams into reality. He says: "I had always run into a brick wall in my search for venture capital, People would say that it was very exciting, but no-one was prepared to back an oddball like myself."

It was not for want of trying. Mr Stewart had trailed round the institutions without success. Indeed he became so fed up about the problems facing people in his position that he wrote a leaflet about "the misnomer of venture capital" and lobbied the Bank of England about the operation of the Business Enterprise Scheme.

His dilemma was basic: "Because I was a one-man band, it was impossible to do a brochure, prepare a business plan and get the money – and still continue to develop the project."

Mr Stewart came to Britain 15 years ago after farming in southern Africa. He started to fly stunt kites at agricultural shows advertising BP oil and from that got into manufacturing kites and special types of inflatables. His main product is an air-filled beam which he claims has the strength of aluminium beam but will also spring back into shape if distorted.

Mr Stewart's first company went under and it was after this low point that he was approached by JMI Seed Capital. JMI was set up in 1986 with funds of £1.6m, its backers include Equity and Law Life Assurance Society, the C&A pension fund and GEC Finance.

According to Mr Richard Poulden, chairman, JMI aims to bring businesses to the level that venture capitalists might be interested in supporting. The gap it seeks to fill is precisely that identified by Mr Stewart: the big venture capital funds do not have the resources to devote to small entrepreneurs and those entrepreneurs do not have the resources to put together a package which will attract serious backing.

JMI's answer is to provide hands-on management and, if necessary, put in managers, with a view to putting strict financial and management systems in place and then prepare a business plan which can be shown to the institutions.

Having had the JMI treatment, Mr Stewart is on a salary as technical director of a company called Stewkie, in which he has a 22 per cent stake. Stewkie's chairman is Mr Patrick Paul, a former US venture capitalist. Between them, JMI and Mr Paul own 60 per cent of Stewkie, which employs six people in a factory at Malbury Osmond in Dorset and has an annual turnover of about £100,000. JMI also found a chief executive for Stewkie, Mr John Chandler, who owns 5.5 per cent of the company.

Mr Poulden said Mr Stewart had about 200 ideas, and these had been narrowed down to products in three areas – structures, military applications and leisure.

The structures are tents or marquees supported by air-filled beams, which can be erected in four minutes from a single compressed air source. Orders have been received from the UK and France.

On the military side, the British army is testing fascines for tanks – inflatables used to fill obstructions such as ditches. The French army is testing an inflatable tripod to support a radar aerial. In leisure, Stewkie has manufactured a prototype inflatable catamaran and other lightweight vessels.

JMI will be seeking full venture capital backing for Stewkie in the first quarter of next year – at least £1m, according to Mr Stewart.

JMI will have fully invested by middle of next year. It aims to exit from its sponsored companies after about 10 years, with a view to taking capital gains. JMI will therefore soon be seeking another tranche of finance and is also interested in managing other investments which are too small for the larger institutions to handle.

Mr Poulden is upbeat about the outlook for small entrepreneurs. He says that the quality of business plans has improved markedly, although JMI probably turns down a third to a half of all approaches over the telephone.

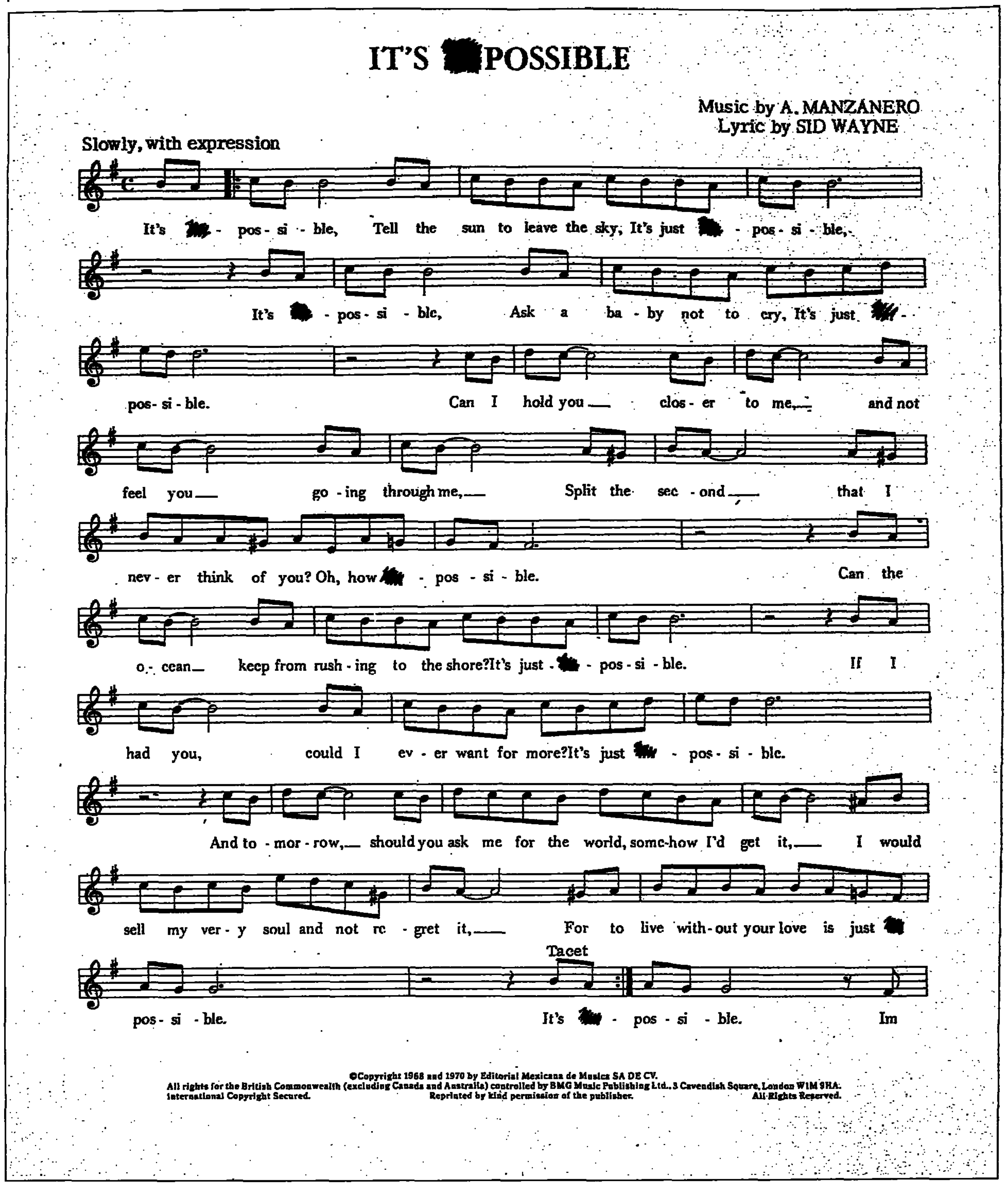
Mr Stewart is in no doubt about his debt to JMI, which has helped bring his long struggle closer to its goal. He said: "It was very difficult: I have always been a loner. I have found JMI particularly sympathetic. JMI deserve a pat on back for what they have done. On the other hand, it would be very difficult if the personal chemistry was not right."

Mr Stewart's final thought? "The process of working with them has been very useful business discipline – I would recommend it to anyone."

Andrew Bolger

European venture funds

FUND MANAGERS

	Range of Individual Investments considered Min. (£000's)	Max. (£000's)	Start-ups	Develop ment	Man.Buy-out /Man.Buy-in	Rescue	Telephone
AUSTRIA (All figures in ECU)							
CA-3Banken Venture Fonds AG	215	720	Y	Y	Y	Y	43 222/63.07.11
BELGIUM (All figures in ECU)							
Advent Management	220	na	N	Y	Y	N	32 2/720.70.07
Benevent Management N.V.	223	1,200	Y	Y	Y	Y	32 2/725.14.40
Euroventures Benelex Team B.V.	2,000	6,500	Y	Y	Y	Y	32 2/725.16 38
G.I.M.V.N.V.	220	3,000	Y	Y	Y	Y	32 3/233.83.83.
Investco N.V.	110	1,000	Y	Y	Y	N	32 2/513.45.20
Isep N.V.	100	1,000	Y	Y	Y	N	32 2/734.99.09
Lim Limburg Investment Company	115	930	Y	Y	Y	Y	32 11/36.19.92
Prominvest N.V.	220	1115	Y	Y	Y	Y	32 2/517.28.72
S.R.I.W.Soc.Reg.D'Inv.de Wallonie	220	na	Y	Y	N	N	32 81/32.22.11
Soc. D'Investiss.de la Province Namur	100	1,000	Y	Y	N	N	32 81/22.59.03
Vlaamse Invester. Vennootschap N.V.	115	1,500	Y	Y	Y	N	32 91/24.08.94
DENMARK (All figures in ECU)							
Danish Development Finance Corporation	na	na					45 39/66.04.00
Dansk Kapitalanlaeg A/S	500	5,000	Y	Y	Y	Y	45 1/15.70.30
Danventure Invest A/S	375	2,500	Y	Y	Y	Y	45 31/68.15.68
Difko Partners A/S	62,500	125	Y	Y	N	N	45 1/12.73.33
Investor Venture A/S	500	2,000	Y	Y	Y	Y	45 1/62.01.74
Lalandia Invest A/S	30	1,250	Y	Y	N	N	45 53/92.78.00
FINLAND (All figures in ECU)							
Capman Capital Management OY	na	na					358 0/680.11.44
Industrialization Fund of Finland Ltd.	500	5,000	N	Y	Y	N	358 0/133.566
Sitra (Finish Nat. Fund Research & Dev.)	na	2,000	Y	Y	N	N	358 0/64.18.77
Tekinnova OY P.O. Box 329	50	200	Y	Y	N	N	358 0/64.18.77
FRANCE (All figures in ECU)							
Agrinova	44	na	Y	Y	Y	Y	33 1/433.557.69
Alan Patricof Associes	150	3,000	Y	Y	Y	Y	33 1/455.303.78
Banexi	75	3,000	Y	Y	Y	Y	33 1/401.440.65
Citicorp Venture Capital S.A.	1,500	na	Y	Y	Y	N	33 1/490.612.72
Compagnie Financiere du Scribe	150	2,250	Y	Y	N	N	33 1/474.280.28
Euroventures France	300	1,500	N	Y	Y	Y	33 1/464.763.78
Idianova S.A.	15	3,000	Y	Y	Y	Y	33 1/435.991.41
Innolion	73	730	Y	Y	N	N	33 1/426.803.33
Innovation Smart Card Ventures N.V.	na	na	Y	Y	Y	Y	33 1/452.330.34
Innovest S.A.	30	400	Y	Y	Y	N	33 88/32.98.50
IPP Inst Provincal de Participation	30	225	Y	Y	Y	Y	33 91/54.91.12
Pallas Venture S.A.	500	2,000	Y	Y	Y	Y	33 1/428.932.09
Paribas-Departement Capital Risque	150	15,000	N	Y	Y	Y	33 1/429.805.25
Partech Associates SA	75	na	Y	Y	Y	Y	33 1/429.819.44
Siparex S.A	150	2,000	N	Y	N	N	33 78/52.41.07
SNEA-Societe Nationale Elf Aquitaine	150	450	Y	Y	Y	Y	33 1/474.421.24
Sofineti	300	750	Y	Y	Y	Y	33 1/455.091.00
Sofinnova S.A.	30	750	Y	Y	N	N	33 1/428.068.70
Soginnove S.A.	145	785	Y	Y	N	N	33 1/474.270.50
Suez Ventures	150	900	Y	Y	N	N	33 1/400.664.00
Thomson -CSF Ventures	150	1,500	Y	Y	N	N	33 1/490.784.20
WEST GERMANY (All figures in ECU)							
Deutsche Beteiligungsgellschaft	300	30,000	Y	Y	Y	Y	49 69 /719.12.80
Genes Gmbh Venture Services	250	2,500	Y	Y	Y	Y	49 2234/590.76
IDP Industrial Development Partners	225	1,500	Y	Y	Y	Y	49 6174/40.17
Neu-Europa Hitec & Biotec	225	2,300	N	Y	Y	Y	49 30/884.29.30
Technologieholding VC Gmbh	250	2,500	Y	Y	N	N	49 89 /15.50.74
TIG Technologie Investitions Gmbh & Co.	250	1,000	Y	Y	N	N	49 30/882.72.01
TVM Techno Venture Management Gmbh & CO KG	225	2,500	N	Y	N	N	49 89/55.879173
IRELAND (All figures in ECU)							
Allied Irish Investment Bank Ltd	42	2,100	Y	Y	Y	Y	353 1/60.47.33
DCC Development Capital Corporation Ltd	na	na	Y	Y	Y	Y	353 1/83.10.11
ICC Corporate Finance Ltd.	70	300	Y	Y	Y	Y	353 1/72.00.55
ITALY (All figures in ECU)							
Credipar S.P.A	70	2,600	Y	Y	Y	Y	39 6/475.58.51
Finbiotec S.p.A	na	na	Y	Y	Y	Y	39 2/851.91
Friulia SpA Fin.Reg.Friuli Venezia	na	11,000	Y	Y	Y	Y	39 39/406.70.21
Iniziativa S.P.A	200	530	Y	Y	Y	Y	39 11/74.86.86
Sige S.P.A	na	na		Y	Y	YY	39 6/679.68.02
SO.P.A.F.S.p.A	430	8,600	N	Y	Y	N	39 2/721.041
Societa Finanziara Di Partecipazione	600	6,600	N	Y	Y	Y	39 6/844.06.41
SPI Prom. E Sviluppo Imprenditoriale	na	3,000	Y	Y	N	N	39 6/844.04.41
Tianguis Ltd.	na	na	Y	Y	Y	Y	39 2/7600.0354
LUXEMBOURG (All figures in ECU)							
INT. Venture Capital Partners S.A.	250	750	Y	Y	Y	Y	352.48.94.28
Sofi-Elec.Soc.Europ.D'Ingenierie Fin.	200	na	Y	Y	Y	Y	352 46.07.10
NETHERLANDS (All figures in ECU)							
Aegon Participatiemaatschappij BV	100	na	N	Y	Y	Y	31 70/44.86.18
Algemene Participatiemaatschappij BV	100	1,600	Y	Y	Y	Y	31 20/29.80.26
Atlas Venture Holding BV	400	na	Y	Y	Y	Y	31 20/97.31.31
Brabant N.V.	2,000	na	N	Y	Y	Y	31 30/57.30.82
Bunge Participatie B.V.	215	640	Y	Y	N	N	31 10/433.07.00
CITCO Venture Capital B.V	750	1,500	N	Y	Y	N	31 2503/415.54
Dena Services B.V.	50	500	Y	Y	Y	Y	31 2153/87.126
De Nationale Investeringsbank N.V.	380	1,150	Y	Y	Y	Y	31 70/42.54.25
Euroventures BV	na	na	Y	Y	Y	Y	31 73/13.78.00
Euroventures Germany Management B.V.	225	na	Y	Y	Y	Y	31 40/444360
Gilde Venture Fund B.V.	100	3,000	N	Y	Y	N	31 30/51.05.34
Halder HoldingsB.V	400	1,000	N	Y	Y	Y	31 70/61.86.18
Holland Venture Beheermaatschappij B.V.	95	380	Y	Y	Y	N	31 20/97.68.41
Industriebank Liof N.V.	40	1,600	Y	Y	Y	N	31 43/28.02.80
Intercapital Investments B.V.	750	1,500	N	Y	Y	N	31 2503/415.54
Mees & Hope Participaties B.V.	200	1,600	N	Y	Y	Y	31 20/52.79.111
MIP Equity Fund	1,000	na	N	Y	Y	Y	31 70/46.92.65
Nederlandse Participatie Maatschappij NV	215	17,000	N	Y	Y	Y	31 20/57.05.55
Nesbic Holdings B.V.	100	2,000	N	N	Y	Y	31 30/42.23.60
Parcom Beheer B.V.	na	1,600	Y	Y	Y	Y	31 70/65.59.10
Particuliere Participatiemij. Amro BV	50	2,000	Y	Y	Y	N	31 20/28.25.80
Parmo Management B.V.	na	800	Y	Y	Y	N	31 20/66.11.520
Utrechtse Participatiemaatschappij BV	na	na	Y	Y	Y	Y	31 30/51.42.88
Venture Fund Rotterdam BV	na	na	Y	Y	Y	Y	31 10/414.34.44
NORWAY (All figures in ECU)							
Origo Ventures A/S	170	1,300	Y	Y	N	N	47 2/33.12.12
PORTUGAL (All figures in ECU)							
Nor-Risco, Capital de Risco SA	na	na	Y	Y	Y	Y	351 2/31.20.18
Promindustria -Soc. Port.Cap De Risco 1/676445127	10	200	N	Y	Y	N	351
SPIR.Soc.De Fin.E Invest.De.Risco	57,904	694,847	Y	Y	Y	Y	351 1/690619
SPR-Soc. Port.De Capital De Risco SA	na	1,000	Y	Y	Y	N	351 2/66.71.65.
SPAIN (All figures in ECU)							
BBG Gestora De Inversiones Bancobao S.A.	75	375	Y	Y	Y	Y	34 1/563.71.49
BBV De Promocion Empresarial SA	na	3,000	N	Y	Y	Y	34 1/336.20.78
Empresa Nacional de Innovacion S.A.	150	na	Y	Y	Y	Y	34 1/256.50.22
Euroventures Espana	na	na	Y	Y	Y	Y	34 91/457.35.58
Gestion de Capital Riesgo S.A.	75	550	Y	Y	Y	Y	34 94/441.35.12
Sevilla	9,375	750					34 954/62.68.11
Soc. Gestora de Fomento Empresarial	235	2,500	Y	Y	N	N	34 1/435.35.90
SWITZERLAND (All figures in ECU)							
Baring Brothers Hambrecht & Quist	100	3,000	Y	Y	N	N	41 22/46.48.55
Euroventures Genevest Management	275	550	Y	Y	Y	Y	41 22/43.50.00
VA Ventures Associates S.A.	50	250	Y	Y	N	Y	41 31/94.96.06

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3i PLC, 91 WATERLOO ROAD, LONDON SE1 8XP TEL 01 928 7822 3i CAPITAL AND 3i VENTURES BOSTON MASSACHUSETTS, USA TEL 617 542 8560 3i CAPITAL AND 3i VENTURES NEWPORT BEACH, CALIFORNIA, USA TEL 714 720 1421. 3i VENTURES, MENLO PARK, CALIFORNIA, USA TEL: 415 854 3330 3i SA PARIS, FRANCE, TEL 46 40 9999. 3i SA, STRASBOURG, FRANCE, TEL 88 36 1666. IBERICA DE INVERSIONES INDUSTRIALES S.A. MADRID, SPAIN, TEL 34 1 521 4419. 3i GESELLSCHAFT FUR INDUSTRIEBETEILIGUNGEN MBH, FRANKFURT, GERMANY, TEL 49 69 740835 3i JERSEY LTD ST HELIER, JERSEY, TEL. 0534 38229. 3i AUSTRALIA LTD. MELBOURNE, AUSTRALIA TEL: 3 614 3249

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